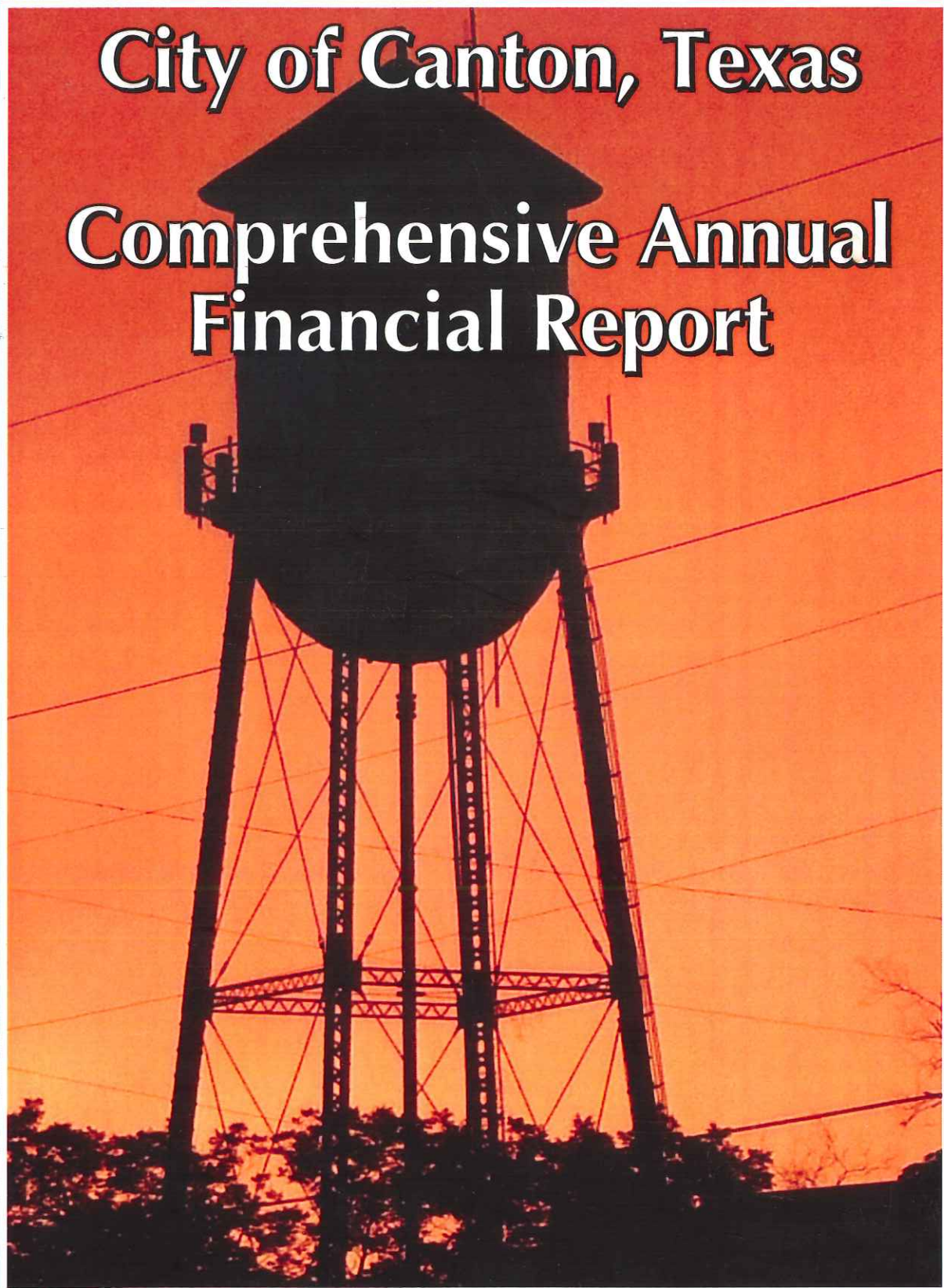




CITY OF CANTON

City of Canton, Texas

Comprehensive Annual Financial Report



Fiscal Year Ended September 30, 2010



Michael Conway, CPA
Neil Conway, CPA

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CONWAY COMPANY CPAs PC
ACCOUNTANTS & ADVISORS

www.conwaycpas.com

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Texas Society of CPAs

March 8, 2011

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE *WITH GOVERNMENT AUDITING
STANDARDS***

To City Council
City of Canton
Canton, Texas

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Canton, Texas as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 8, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Canton's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Canton, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the City's internal control to be significant deficiencies:

We noted that the City does not record a minor bank account in the City's accounting system.

We noted that Section 811 and Section 905 of the City of Canton Policy and Procedures Manual have conflicting policies on the amount of vacation time paid out upon separation with the City.

We noted that grant requests for reimbursements are not made on a timely basis.

We noted during our testing that the City does not keep sufficient backup for credit card expenses, including receipts and any other backup to support the expense.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Canton's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of City of Canton, Texas in a separate letter dated March 8, 2011.

This report is intended solely for the information and use of management, commissioners, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

CONWAY COMPANY CPAs, P.C.

Conway Company CPAs, P.C.

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March 8, 2011

City Council
City of Canton
Canton, Texas

We have audited the financial statements of the City of Canton, Texas as of and for the year ended September 30, 2010, and have issued our report thereon dated March 8, 2011. Professional standards require that we advise you of the following matters relating to our audit.

Our responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 9, 2010, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

1. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.
2. As part of our audit, we considered the internal control of the City of Canton, Texas. Such considerations were solely for the purpose of determining our audit procedures and not for the purpose of expressing an opinion on the effectiveness of the City of Canton, Texas' internal control over financial reporting.
3. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Other information in documents containing audited financial statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the City's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

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Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Planned scope and timing of the audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you in our engagement letter dated June 9, 2010.

Significant audit findings

Qualitative aspects of accounting practices

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City of Canton, Texas is included in Note A to the financial statements. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2010.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from management's judgments. The most sensitive estimate affecting the financial statements was the estimate of future post-closure liability. We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and uncorrected misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or other audit matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management representations

We have requested certain written representations from management, which are included in the attached letter dated March 8, 2011.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other audit findings or issues

In the normal course of our professional association with the City of Canton, Texas, we generally discuss a variety of other matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

This report is intended solely for the information and use of the City Council and management of the City of Canton, Texas and is not intended to be and should not be used by anyone other than those specified parties.

Respectfully Submitted,

CONWAY COMPANY CPAs, P.C.

Conway Company CPAs, P.C.

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The City of Canton, Texas
Summary of Passed Adjustments
September 30, 2010

Account	Description	W/P Ref	Debit	Credit
Passed Journal Entry # 1				
To adjust prepaid insurance expense				
01-200-5230	Health Insurance	2000-11		2,156
NEW	Prepaid Insurance		2,156	
Total			<u>2,156</u>	<u>2,156</u>
Passed Journal Entry # 2				
To adjust cash balances				
01-000-1010	Cash ANB	1000-1	12,311	
01-000-4030	Miscellaneous			12,311
Total			<u>12,311</u>	<u>12,311</u>
Passed Journal Entry # 3				
To adjust property tax revenue				
01-000-2095	Deferred Revenue	3000-1	3,133	
01-000-4005	Property Tax			3,133
Total			<u>3,133</u>	<u>3,133</u>
Passed Journal Entry # 4				
To adjust TMRS payables				
01-000-2050	Retirement Payable	2000-7	279	
01-100-5050	Retirement			279
Total			<u>279</u>	<u>279</u>
Passed Journal Entry # 5				
To adjust property tax receivable				
01-000-1050	Delinquent Tax Receivable		236	
01-000-4005	Property Tax			236
Total			<u>236</u>	<u>236</u>
Cumulative Impact				
Assets (Overstated) Understated			14,703	
Liabilities Overstated (Understated)			3,412	
Revenue Overstated (Understated)			(15,680)	
Expenses (Overstated) Understated			(2,435)	
Changes in Net Assets Overstated (Understated)			<u>(18,115)</u>	

COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE
CITY OF CANTON, TEXAS

FOR
FISCAL YEAR ENDED
SEPTEMBER 30, 2010

City Manager
Andy McCuiston

CITY OF CANTON, TEXAS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

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INTRODUCTORY SECTION



City of Canton

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City Hall - 903-567-2826
First Monday - 903-567-6556

March 1, 2011

Honorable Mayor and City Council
City of Canton
Canton, Texas

Dear Mayor and Council Members:

The Comprehensive Annual Financial Report (CAFR) of the City of Canton, Texas, for the year ended September 30, 2010, is submitted herewith.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that is established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Conway Company CPAs, P.C. have issued an unqualified opinion on the City of Canton, Texas' financial statements for the year ended September 30, 2010. The independent auditor's report is located in the beginning of the financial section of the CAFR.

This letter of transmittal is designed to compliment Management's Discussion and Analysis (MD&A) and should be read in conjunction with it. The City's MD&A can be found immediately following the independent auditors' report and provides a narrative introduction, overview and analysis of the basic financial statements.

GENERAL INFORMATION – CITY OF CANTON

The City of Canton is located in Van Zandt County which is located in the Northeast region of Texas. The City was incorporated under the provisions of H.B. 901 of the Texas Legislature.

The City Council is comprised of a mayor and five council members and is responsible for enacting ordinances, resolutions, and regulations governing the City, as well as appointing the members of various statutory and advisory boards, City Manager, City Attorney, and a Municipal Judge. The City Manager is the Chief Administrative Officer of the government and is responsible for the enforcement of laws and ordinances, the appointment and supervision of the executive directors, and heads of departments, and the performance of functions within the municipal organization.

**Home of World Famous First Monday Trade Days
Begins Thursday Before Each First Monday**

Fax: 903-567-1753

web site: www.cantontx.com

e-mail address: canton@vzinet.com

ECONOMIC CONDITIONS AND OUTLOOK

Canton, Texas is a commercial center built on tourism, retail, agricultural and governmental activity. Given Canton's pro-business attitude, the City continues to prosper economically. Highlights include:

Canton is home to First Monday which has provided economic benefits to the City since its opening over *one hundred and fifty* years ago. In the mid 1960's, the operations were organized and managed by the City of Canton which generated direct rental revenue and indirect sales tax revenue. Since that time, additional private First Monday properties have been developed. The City continues to receive a steady revenue stream from its First Monday operations and the sales tax revenue has continued to increase annually.

Canton is also a Texas and National Main Street City. As the County seat, Canton's vital downtown district is centered around the Van Zandt County Courthouse and features the Plaza Museum, quaint boutiques, shops, eateries, a bed & breakfast, and professional service businesses.

In addition to the economic activity derived from First Monday Trade Days and as a weekend destination, Canton is a business and retail center for residents throughout the County and area. It supports a wide variety of motels, B&B's, restaurants, retail stores, wholesale businesses, financial institutions, healthcare facilities, professional and business services, and manufacturing companies.

MAJOR INITIATIVES

In FY 2009-2010, several projects affecting the City's economic outlook were initiated and/or completed. Dollar General moved to its larger new store. Renovations continued to Traders Village Shopping Center where several new businesses opened, including Aaron's and Family Dollar. A new dental/professional office opened. A 129-bed care facility/therapy center was under construction. Several new businesses opened Downtown, including The Soda Shop, SysLogic IT business office, Elliott Law Office, and Verizon Wireless. The City of Canton opened a new structure for vendors at First Monday Trade Days. Residential construction was slow but steady for a City the size of Canton. Several duplexes on Westview Lane and custom homes in Fosters Garden were built inside the City limits.

The City continued its own development and preparations for the future. A new sanitation contract was negotiated with no cost increases to the customers. The City reduced its workforce by nine full-time equivalent positions. It decreased total revenue by \$1,000,000+ and total expenditures by \$3,000,000+. The provision of an adequate water supply to meet future needs is one of the Council's primary goals. Related to long-term water planning, Canton was successful in getting its plans for a future lake included in the State's Water Development Plan. The drilling of a new water well to meet short- to mid-term needs was initiated and funding was secured from the Canton Economic Development Corporation. A water reuse application was submitted to TCEQ to reclaim additional water from Mill Creek based on the amount of water discharged from the Wastewater Treatment Plant. The City's Water Treatment Plant received major upgrades including a chemical bulk storage facility and a major valve replacement project. The City bought additional land for the future expansion of the Wastewater Treatment Plant. It also continued upgrading its infrastructure with multiple street projects, a water pressure booster station, and water distribution and wastewater collection system improvements, one of which was funded by a Texas Community Development Block Grant and another by the Canton Economic Development Corporation. Public Safety was enhanced with the purchase of a new fire engine, implementation of a new CodeRed emergency early warning system, and installation of COPSync, an in-car computer system for all patrol units that is connected to an interagency database. The City has been aggressive in applying for and securing outside funding. The COPSync project was made possible by a Homeland Security grant and the CodeRed system was provided by a grant from the East Texas Council of Governments. Thanks to funding through a Texas Parks and Wildlife Grant, major improvements continued at the City's Cherry Creek Park, including the installation of walking paths, fishing nodes, an 18-hole disc golf course, and improvements to the soccer fields.

In FY 2010-11, increased economic development is expected to continue with completion of the 129-bed care facility, continued renovations and marketing for the Traders Village and Bridwell Shopping centers, the completion of a new Travel Center on Interstate 20, and the opening of One Awesome Shirt, Come Together Trading Company, and The Greenhouse in the Downtown District. Developers are discussing a new residential development. Economic negotiations are also ongoing with retail, hotel and restaurant chains. A downtown sidewalk improvement project will commence thanks to a Texas Department of Agriculture Main Street grant. Major improvements will continue on Athens Street, Lisa Circle, Peace, Beard, and Elm, the East Outfall sewer line project, a new water well, and the wastewater treatment plant.

FINANCIAL INFORMATION

Accounting Procedures and Budgetary Controls

The City's accounting records for general government are maintained on a modified accrual basis, with revenues being recorded when available and measurable, and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's water and sewer utility and other proprietary activities are maintained on the accrual basis.

The budgetary process begins each year with the preparation of both current and proposed year revenue estimates by the City's financial management staff, and expenditure estimates by each City department. Budgets are reviewed by the council. The City Manager makes final decisions and submits a recommended budget to the City Council.

As part of each year's budget development process, departments are required to update expenditure estimates for the current fiscal year. These estimates are reviewed by the Mayor, City Manager, and the City Council concurrent with review of the proposed budget. This re-estimated budget may require a supplemental appropriation and, if so, such supplemental appropriation is approved by ordinance adopted by the City Council prior to the end of the current fiscal year.

General Governmental Functions

Tax Rates: All eligible property within the City is subject to assessment, levy and collection by the City of a continuing, direct ad valorem tax sufficient to provide for the payment of principal and interest on outstanding debt within the limits prescribed by law, and the payment of operation and maintenance costs as approved by the City Council. The City's tax rate history as adopted by the City Council is shown below:

	<u>Tax Rate</u>
2005-2006	.4000000
2006-2007	.3900000
2007-2008	.4252300
2008-2009	.4252300
2009-2010	.4252300
2010-2011	.4252300

OTHER INFORMATION

Independent Audit The City of Canton has engaged the firm of Conway Company CPAs, P.C. to perform the annual audit and their opinion has been included in this report. It should be noted that the auditors included all funds in their audit, performed their audit in accordance with generally accepted auditing standards, and stated that, in their opinion, the statements herein present fairly, in all material respects, the financial position of the City at September 30, 2010, and the changes in financial position and cash flows of its proprietary funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Acknowledgements Many persons are responsible for the preparation of this report, and for the maintenance of records upon which it is based. Appreciation is expressed to the City employees throughout the organization, especially those employees of the Accounting Department who were instrumental in the successful completion of this report.

Our appreciation is also extended to the Mayor and members of the City Council for providing the resources necessary to maintain the integrity of the City's financial affairs.

Respectfully submitted,

Andy McCuiston
CITY MANAGER

Julie H. Seymore
FINANCE OFFICER

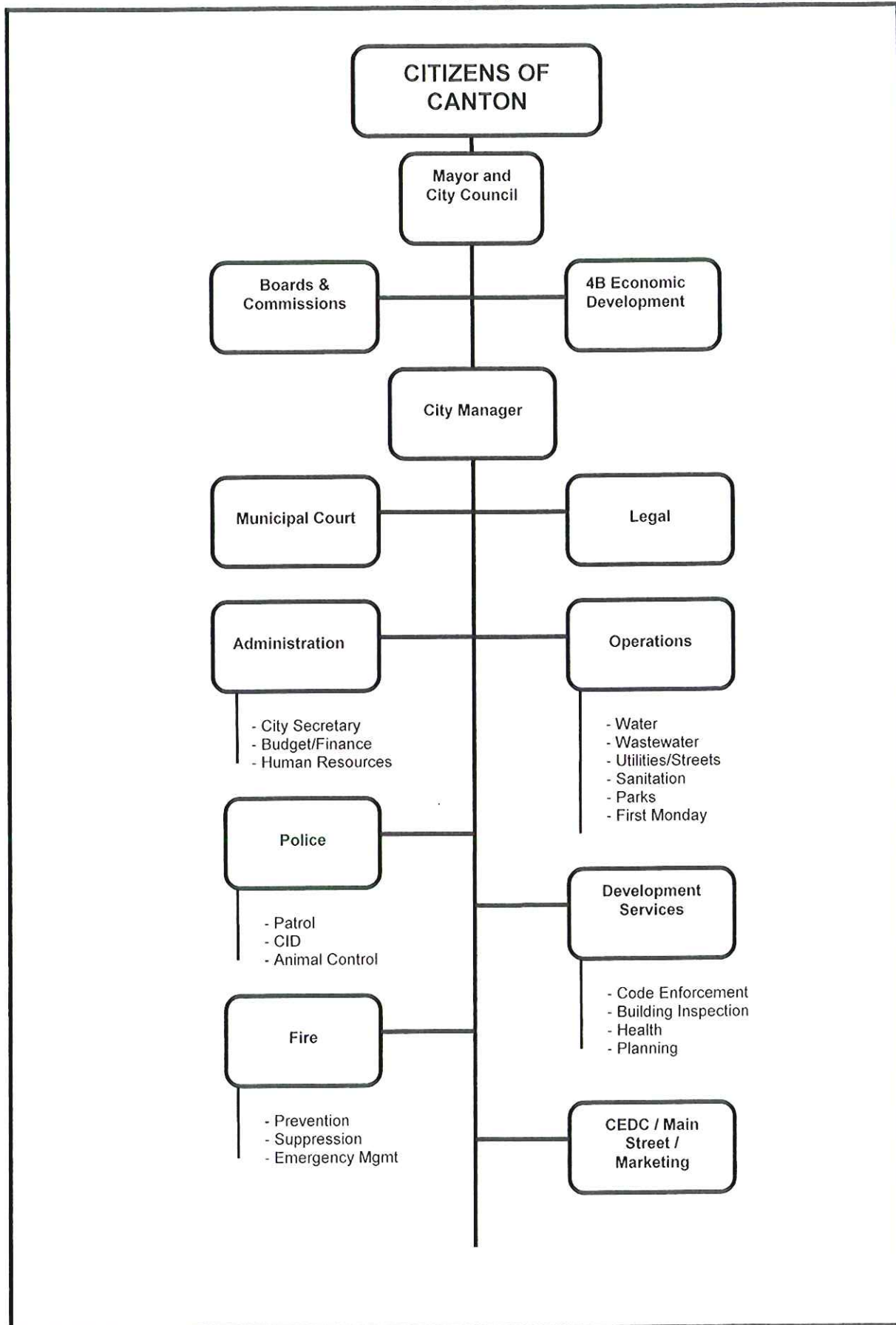
Council Members

Rusty Wilson, Mayor
Lou Ann Everett, Mayor Pro Tem
Robert Brockman
Charles Huddle
Clay Nicklas
Ross Maris

Administrative Staff

Andy McCuistion, City Manager
Lonny Cluck, Assistant City Manager - Operations
Bud Sanford, Fire Chief
Mike Echols, Police Chief
Julie H. Seymore, City Secretary/ Finance Officer
Lilia Durham, Municipal Court Judge

**CITY OF CANTON
ORGANIZATIONAL CHART
2009-10**



FINANCIAL SECTION





Michael Conway, CPA
Neil Conway, CPA

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March 8, 2011

Independent Auditor's Report on Financial Statements

Mayor and City Council
City of Canton
P O Box 245
Canton, TX 75103-0245

Mayor and City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Canton ("City") as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Canton's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in GOVERNMENT AUDITING STANDARDS, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the City of Canton as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with GOVERNMENTAL AUDITING STANDARDS, we have also issued our report dated March 8, 2011, on our consideration of the City of Canton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with GOVERNMENT AUDITING STANDARDS and should be considered in assessing the results of our audit.

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The Management's discussion and analysis and the Schedule of Pension Trust - TMRS Funding Progress and Contributions and General Fund budgetary comparison schedule, identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Canton, Texas' basic financial statements. The introductory section, schedules and statistical tables listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section, supplementary information and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Respectfully Submitted,

CONWAY COMPANY CPAs, PC

Conway Company CPAs, P.C.

CITY OF CANTON, TEXAS

MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2010

As management of the City of Canton, we offer readers of the City of Canton's financial statements this narrative overview and analysis of the financial activities of the City of Canton for the fiscal year ended September 30, 2010. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

- The assets of the City of Canton exceeded its liabilities at the close of the fiscal year by \$22,415,278 (net assets). The portion of net assets that can be used to meet the government's ongoing obligations to citizens and creditors, unrestricted net assets, is \$2,837,252.
- The government's total net assets increased by \$2,099,553, (excluding prior period adjustments). The majority of this increase is attributable to capital grants.
- As of the close of the current fiscal year, the City of Canton's governmental funds reported combined ending fund balances of \$1,858,473, an increase of \$108,498 in comparison with the prior year. Approximately 39% of this total amount, or \$716,087 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$716,087 or 20% percent of total general fund expenditures.
- The City of Canton's total bonded debt decreased by \$180,601, or 3%, during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Canton's basic financial statements. The City's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements.

CITY OF CANTON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2010

Basic Financial Statements

The first two statements (Pages 19-21) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (Pages 22-28) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements and 2) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the City's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gauge the City's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the City's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the utility services offered by the City of Canton and First Monday Trade Days activities. The final category is the component unit. Currently, the City of Canton does not have significant activity in its component units.

The government-wide financial statements are on pages 19, 20, and 21 of this report.

Fund Financial Statements

The fund financial statements (Pages 22-28) provide a more detailed look at the City's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Canton, like all other governmental entities in Texas, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the City's budget ordinance. All of the funds of the City of Canton can be divided into two categories: governmental funds and proprietary funds.

CITY OF CANTON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2010

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the City's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The City of Canton adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the City, the management of the City, and the decisions of the council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the modified accrual basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows three columns: 1) the original budget; 2) the final budget as amended by the council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. The Governmental Fund financial statements can be found on pages 22-26 of this report.

Proprietary Funds – The City of Canton has one type of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Canton uses enterprise funds to account for its water, sewer, sanitation activity and First Monday activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

Proprietary Funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 27-29 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 29 to 46 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Canton's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 49 of this report.

**CITY OF CANTON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2010**

Government-Wide Financial Analysis

The government-wide financial statements for the fiscal year ended September 30, 2010 continue the implementation of a new standard of financial reporting for the City of Canton, and many other units of government across the United States. Prior to 2004, the City of Canton maintained their governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of the City of Canton. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.

The changes in the financial statement reporting model are mandated by the Governmental Accounting Standards Board (GASB). GASB Statement 34 dictated the changes you see in the City of Canton's financial reports as well as those of many other units of government. While the City of Canton was required to implement these changes for the fiscal year ended September 30, 2004, other units were required to implement Statement 34 in 2002 and 2003.

CITY OF CANTON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2010

The City of Canton's Net Assets

Figure 1

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 2,216,029	\$ 2,046,930	\$ 2,821,735	\$ 1,670,406	\$ 5,037,764	\$ 3,717,336
Capital assets	12,169,030	11,742,174	12,942,961	11,937,169	25,111,991	23,679,343
Total assets	14,385,059	13,789,104	15,764,696	13,607,575	30,149,755	27,396,679
Current liabilities	286,770	239,161	376,194	369,450	662,964	608,611
Long-term liabilities	4,323,910	5,027,578	2,747,603	1,970,343	7,071,513	6,997,921
Total liabilities	4,610,680	5,266,739	3,123,797	2,339,793	7,734,477	7,606,532
Net assets:						
Invested in capital assets, net of related debt	7,853,707	6,879,822	9,512,081	10,025,715	17,365,788	16,905,537
Restricted	1,091,198	1,088,389	1,121,040	130,509	2,212,238	1,218,898
Unrestricted	829,474	554,154	2,007,778	1,111,558	2,837,252	1,665,712
Total net assets	\$ 9,774,379	\$ 8,522,365	\$ 12,640,899	\$ 11,267,782	\$ 22,415,278	\$ 19,790,147

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The net assets of the City of Canton exceeded liabilities by \$22,415,278 as of September 30, 2010. The City's net assets increased by \$2,099,553, excluding prior period adjustments for the fiscal year ended September 30, 2010. However, the largest portion (77%) reflects the City's investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The City of Canton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Canton's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Canton's net assets, 10%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,837,252 is unrestricted.

CITY OF CANTON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2010

The City of Canton Changes in Net Assets
Figure 2

	Governmental Activities		Business Activities		Totals	
	2010	2009	2010	2009	2010	2009
REVENUE:						
Program Revenues						
Charges for Services	\$ 309,506	\$ 352,930	\$ 4,813,618	\$ 5,858,085	\$ 5,123,124	\$ 6,211,015
Grants and Contributions	279,767	98,531	1,069,158	473,617	1,348,925	572,148
General Revenues:						
Property Taxes	1,147,211	1,058,246	-	-	1,147,211	1,058,246
Sales Taxes	2,087,499	2,112,512	-	-	2,087,499	2,112,512
Franchise Fees	229,691	213,261	-	-	229,691	213,261
Mixed Drink Taxes	7,003	4,968	-	-	7,003	4,968
Hotel/Motel Tax	-	-	210,697	220,532	210,697	220,532
Donations	9,095	3,373	-	30,000	9,095	33,373
Investment Income	11,859	16,717	7,174	8,652	19,033	25,369
Insurance Reimbursement	40,136	49,361	-	-	40,136	49,361
Miscellaneous	38,531	52,605	69,182	31,588	107,713	84,193
Rental Income	18,276	-	-	-	18,276	-
Sale of Assets	-	-	-	(12,461)	-	(12,461)
Intergovernmental Revenues	-	248,688	20,000	143,635	20,000	392,323
Total Revenues	4,178,574	4,211,192	6,189,829	6,753,648	10,368,403	10,964,840
EXPENSES:						
Program Expenses:						
Administrative Services	821,677	975,534	-	-	821,677	975,534
Police	1,144,670	1,089,555	-	-	1,144,670	1,089,555
Fire	439,671	374,336	-	-	439,671	374,336
Animal Control	121,211	126,502	-	-	121,211	126,502
Municipal Court	157,384	149,837	-	-	157,384	149,837
Streets	668,367	765,471	-	-	668,367	765,471
Parks and Recreation	277,565	381,200	-	-	277,565	381,200
Interest on Long-Term Debt	155,545	186,529	-	-	155,545	186,529
Water and Sewer	-	-	1,852,580	2,121,342	1,852,580	2,121,342
Sanitation	-	-	543,142	614,118	543,142	614,118
First Monday	-	-	2,087,038	2,891,481	2,087,038	2,891,481
Total Expenses	3,786,090	4,048,964	4,482,760	5,626,941	8,268,850	9,675,905
Increase in Net Assets before Transfers	392,484	162,228	1,707,069	1,126,707	2,099,553	1,288,935
Other Revenues and Financing Sources (uses)						
Transfers	331,682	441,333	(331,682)	(441,333)	-	-
Total Other Financing Sources (uses)	331,682	441,333	(331,682)	(441,333)	-	-
Increase in Net Assets	724,166	603,561	1,375,387	685,374	2,099,553	1,288,935
Net Assets, October 1	8,522,365	7,728,378	11,267,782	10,570,992	19,790,147	18,299,370
Prior Period Adjustments	527,848	190,426	(2,270)	11,416	525,578	201,842
Net Assets, September 30	\$ 9,774,379	\$ 8,522,365	\$ 12,640,899	\$ 11,267,782	\$ 22,415,278	\$ 19,790,147

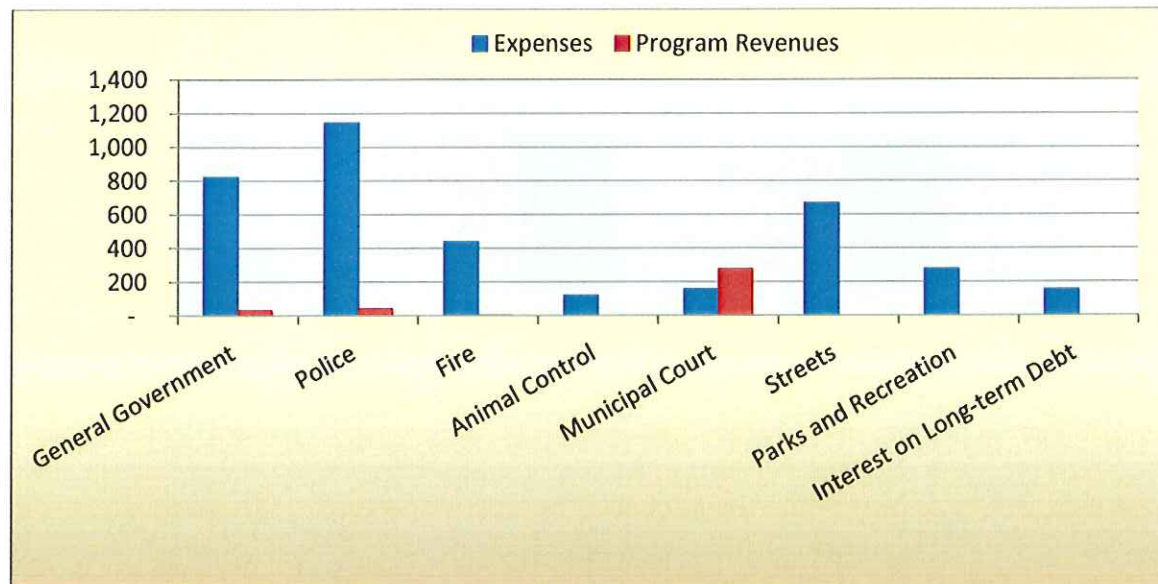
CITY OF CANTON TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2010

Governmental-type activities - Governmental-type activities increased the City's net assets \$724,166. Key elements of this increase are as follows:

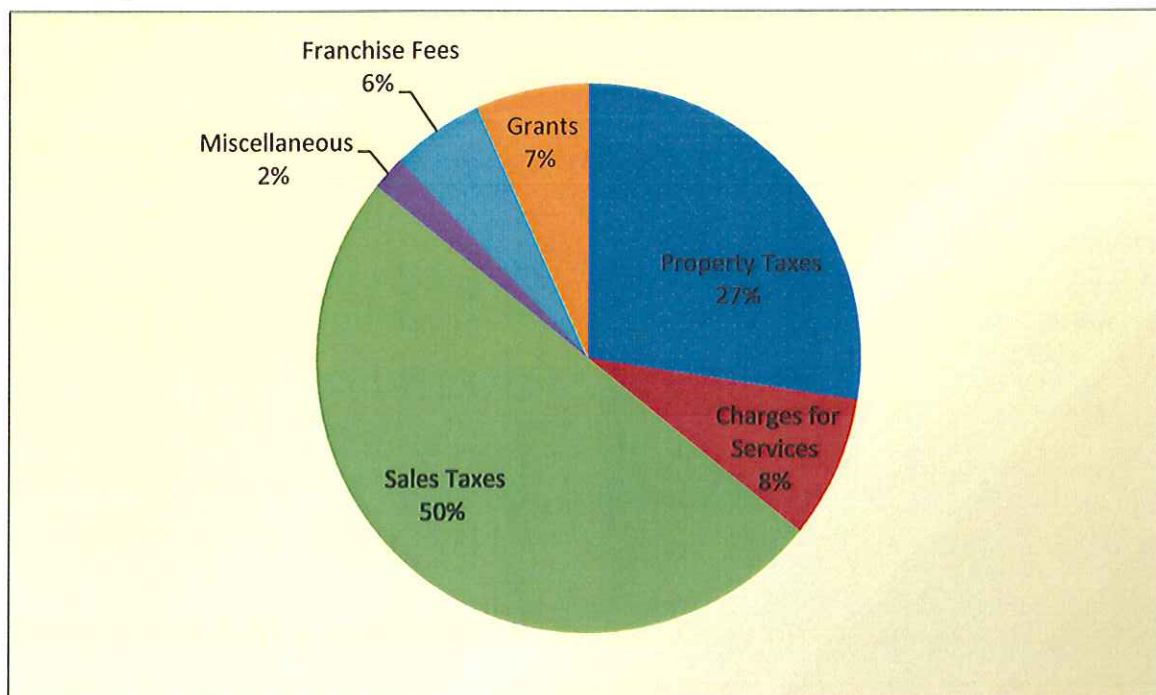
Revenues were very close to the budgeted amounts. Expenditures were \$791,010, or 18%, below budgeted amounts.

Expenses and Program Revenues - Governmental Activities

(amounts expressed in thousands)



Revenues By Source - Governmental Activities



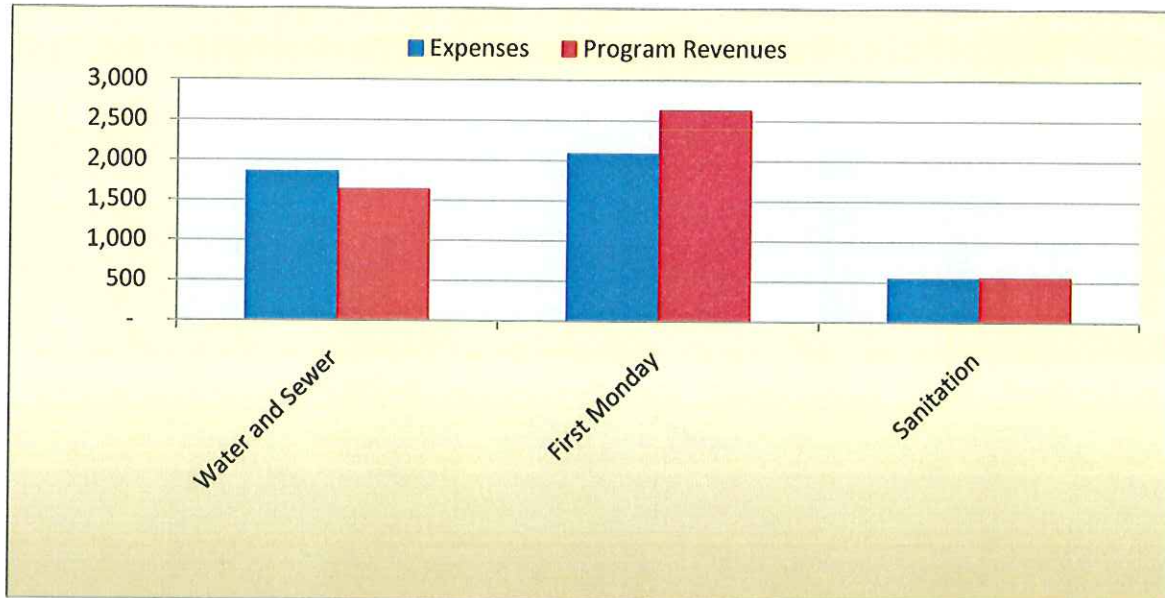
CITY OF CANTON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2010

Business-type Activities - Business-type activities increased the City of Canton's net assets by \$1,375,387. A key element of this increase is as follows:

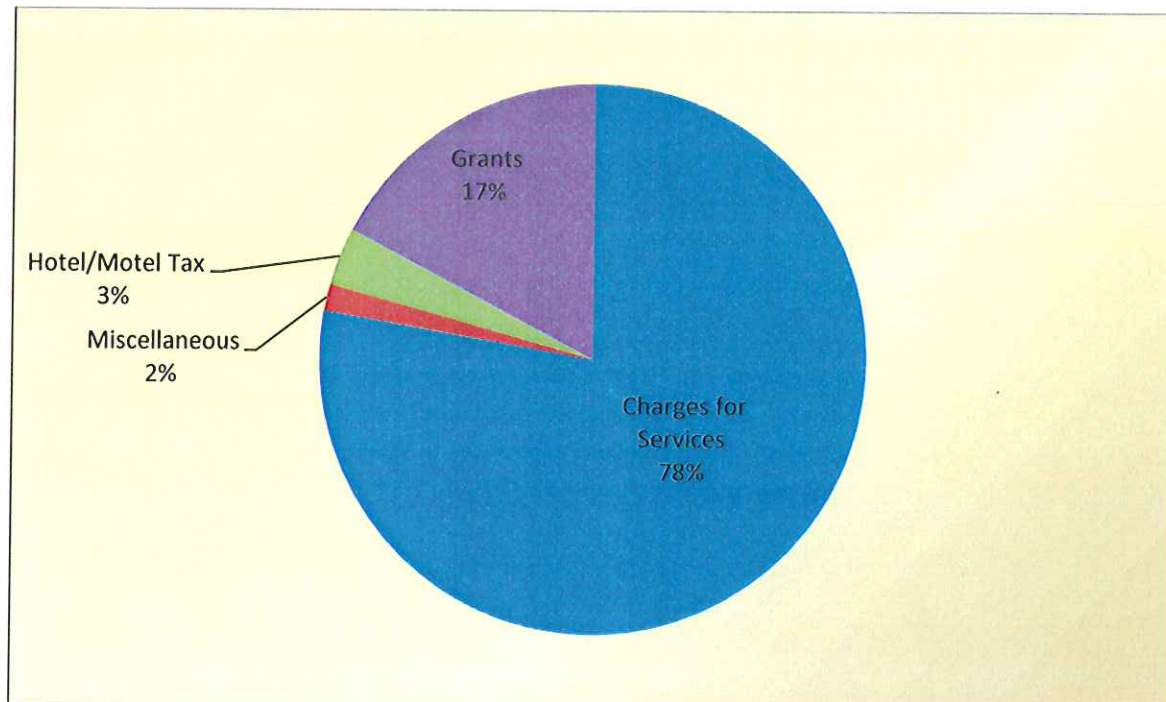
Grant revenue in the amount of \$1,069,158 was received for capital improvements.

Expenses and Program Revenues - Business Activities

(amounts expressed in thousands)



Revenues By Source - Business Activities



CITY OF CANTON, TEXAS
MANAGEMENT AND DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2010

Financial Analysis of the City's Funds

As noted earlier, the City of Canton uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the City of Canton's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the City of Canton's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City of Canton. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$716,087. As a measure of the general fund's liquidity it may be useful to compare the unrestricted fund balance to total fund expenditures. Unreserved fund balance represents 20% of total General Fund expenditures.

At September 30, 2010, the governmental funds of the City of Canton reported a combined fund balance of \$1,858,473, an 6% increase, compared to last year.

The Debt Service Fund of the City of Canton reported a decrease in fund balance of (\$50,832).

General Fund Budgetary Highlights: During the fiscal year, the City revised the budget on several occasions. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; (2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and (3) increases in appropriations that become necessary to maintain services.

Revenues were slightly more than the budgeted amounts in the area of sales taxes. Expenditures were less than budgeted amounts.

Proprietary Funds - The City of Canton's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the proprietary funds at the end of the fiscal year amounted to \$2,007,778.

CITY OF CANTON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2010

Capital assets - The City of Canton's investment in capital assets for its governmental and business-type activities as of September 30, 2010, totals \$25,111,991 (net of accumulated depreciation). This investment in capital assets includes buildings, roads and bridges, land, machinery and equipment. The total increase in the City of Canton's investment in capital assets for the current fiscal year was 6%.

Major capital asset events during the current fiscal year included the following:

- Addition of the Dry Creek Landing - First Monday vendor building
- Completion of water and sewer plant improvements

Figure 3

City of Canton
Capital Assets
As of September 30, 2010
(net of accumulated depreciation)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land & Improvements	\$ 2,756,722	\$ 2,691,090	\$ 648,473	\$ 597,868	\$ 3,405,195	\$ 3,288,958
Machinery & Equipment	668,899	766,753	884,513	986,547	1,553,412	1,753,300
Buildings	462,515	565,349	5,248,236	4,810,565	5,710,751	5,375,914
Infrastructure	7,661,336	7,272,800	5,593,278	4,754,394	13,254,614	12,027,194
Construction in Progress	619,558	446,182	568,461	787,795	1,188,019	1,233,977
Total	<u>\$ 12,169,030</u>	<u>\$ 11,742,174</u>	<u>\$ 12,942,961</u>	<u>\$ 11,937,169</u>	<u>\$ 25,111,991</u>	<u>\$ 23,679,343</u>

More detailed information about the City's capital assets is presented in Note E to the financial statements

Long-term Debt - As of September 30, 2010, the City of Canton had long-term debt outstanding of \$6,525,589. This debt is secured by property taxes and/or revenues. The debt increased by \$180,601 or 3%.

City of Canton
Outstanding Debt
As of September 30, 2010

	Governmental Activities		Business Activities		Total	
	2010	2009	2010	2009	2010	2009
Limited Tax Note Payable	\$ 450,589	\$ 469,987	\$ -	\$ -	\$ 450,589	\$ 469,987
Certificates of Obligation	1,891,550	2,005,330	1,363,450	1,459,671	3,255,000	3,465,001
Refunding Bonds	1,515,000	1,990,000	260,000	420,000	1,775,000	2,410,000
Revenue Bonds	-	-	1,045,000	-	1,045,000	-
Total	<u>\$ 3,857,139</u>	<u>\$ 4,465,317</u>	<u>\$ 2,668,450</u>	<u>\$ 1,879,671</u>	<u>\$ 6,525,589</u>	<u>\$ 6,344,988</u>

More detailed information about the City's long-term liabilities is presented in Note F to the financial statements.

CITY OF CANTON, TEXAS
MANAGEMENT DISCUSSION AND ANALYSIS (continued)
SEPTEMBER 30, 2010

Economic Factors and Next Year's Budgets and Rates

The FY 10-11 budget incorporates a property tax rate of \$0.42523 per \$100 valuation year. This remains unchanged from the prior year budget. Canton's certified taxable value for fiscal year 2011 is \$262,533,342. This is a 1.7% decrease from last year's values, or \$4,604,372.

In preparation of the economic downturn, the City of Canton previously reduced its workforce by nine full-time equivalent employees, or 10%. Management also reduced its estimated revenues over \$1 million and its expenditures over \$3 million in the fiscal year 2011 budget. FY2011 includes flat revenue projections for two of the largest revenue streams - sales taxes and First Monday revenues. In fact, in year-to-date comparisons, sales tax revenue has increased 8.76% and First Monday revenues have increased 9%. Sewer rates were also raised to help cover wastewater treatment costs. The largest budget cuts include a reduction in the annual automatic rate adjustments for retirees, adjustments to employee health insurance benefits, and cuts in capital purchases and projects. The City also continues to be aggressive in seeking alternate funding through grants and other sources.

In fiscal year 2011, increased economic development is expected to continue with completion of the 129-bed care facility, continued renovations and marketing for the Traders Village and Bridwell shopping centers, the completion of a new Travel Center on Interstate 20, and the opening of One Awesome Shirt, Come Together Trading Company and The Greenhouse in the downtown district. Developers are discussing a new residential development. Economic negotiations are also ongoing with retail, hotel and restaurant chains. A downtown sidewalk improvement project will commence thanks to a Texas Department of Agriculture Main Street grant. Major improvements will continue on Athen Street, Lisa Circle, Peach, Beard, and Elm, the East Outfall sewer line project, a new water well, and the wastewater treatment plant.

Requests for Information

This report is designed to provide an overview of the City's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Canton, Finance Department, P O Box 245, Canton, Texas 75103.



BASIC FINANCIAL STATEMENTS



CITY OF CANTON, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	<u>Primary Government</u>			Component
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>	<u>Units</u>
	<u>Activities</u>	<u>Activities</u>		
ASSETS				
Cash and Cash Equivalents	\$ 387,320	\$ 510,959	\$ 898,279	\$ 934,559
Receivables (net of allowance for uncollectible)	400,141	148,926	549,067	117,424
Deferred Charges	53,253	28,286	81,539	-
Note Receivable from component unit	-	973,738	973,738	-
Restricted Assets:				
Cash and Cash Equivalents	1,375,315	1,159,826	2,535,141	-
Capital Assets not being depreciated:				
Land & Improvements	2,756,722	648,473	3,405,195	1,121,265
Construction in Progress	619,558	568,461	1,188,019	220,435
Capital Assets net of accumulated depreciation:				
Buildings	462,515	5,248,236	5,710,751	58,822
Infrastructure	7,661,336	5,593,278	13,254,614	84,930
Machinery & Equipment	668,899	884,513	1,553,412	-
Total Assets	<u>14,385,059</u>	<u>15,764,696</u>	<u>30,149,755</u>	<u>2,537,435</u>
LIABILITIES				
Accounts Payable	215,468	198,079	413,547	34,580
Customer Deposits	-	81,365	81,365	-
Accrued Interest Payable	19,554	27,577	47,131	-
Other Liabilities	51,748	56,861	108,609	-
Unearned Revenues	-	12,312	12,312	-
Noncurrent Liabilities:				
Due within one year:				
Compensated Absences	16,683	8,317	25,000	-
Notes Payable	30,714	-	30,714	92,461
Note Payable to primary government	-	-	-	79,410
Limited Tax Note	26,362	-	26,362	-
Certificates of Obligations	114,450	110,550	225,000	-
Bonds Payable	490,000	200,000	690,000	-
Due in more than one year:				
Compensated Absences	113,629	64,348	177,977	-
Notes Payable	308,330	-	308,330	493,960
Note Payable to primary government	-	-	-	894,329
Limited Tax Note Payable	424,227	-	424,227	-
Certificates of Obligations Payable	1,766,856	1,252,900	3,019,756	-
Bonds Payable	1,032,659	1,111,488	2,144,147	-
Total Liabilities	<u>4,610,680</u>	<u>3,123,797</u>	<u>7,734,477</u>	<u>1,594,740</u>
NET ASSETS				
Invested in capital assets (net of related debt)	7,853,707	9,512,081	17,365,788	899,031
Restricted for:				
Debt	932,379	-	932,379	-
Use of Impact Fees	-	180,370	180,370	-
Court use	39,679	-	39,679	-
Capital Improvements	119,140	878,566	997,706	-
Hotel Tax Use	-	62,104	62,104	-
Unrestricted	829,474	2,007,778	2,837,252	43,664
Total Net Assets	<u>\$ 9,774,379</u>	<u>\$ 12,640,899</u>	<u>\$ 22,415,278</u>	<u>\$ 942,695</u>

The notes to the financial statements are an integral part of these financial statements

CITY OF CANTON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Function/Program Activities	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Administrative Services	\$ 821,677	\$ 30,325	\$ -	\$ -
Police	1,144,670	40,136	-	45,634
Fire	439,671	2,329	-	100,000
Animal Control	121,211	-	-	-
Municipal Court	157,384	276,852	-	-
Streets	668,367	-	-	-
Parks and Recreation	277,565	-	-	134,133
Interest on Long-Term Debt	155,545	-	-	-
Total governmental activities	3,786,090	349,642	-	279,767
Business-type Activities:				
Water and Sewer	1,852,580	1,636,119	-	1,069,158
Sanitation	543,142	553,448	-	-
First Monday	2,087,038	2,624,051	-	-
Total business-type activities	4,482,760	4,813,618	-	1,069,158
Total primary government	8,268,850	5,163,260	-	1,348,925
Component units:				
Economic Development Corporation	1,369,383	-	-	-
Total component units	\$ 1,369,383	\$ -	\$ -	\$ -

General revenues:
Property taxes
Sales taxes
Franchise Taxes
Mixed Drink taxes
Hotel/Motel tax
Donations
Investment income
Intergovernmental Revenues
Miscellaneous
Rental Income
Transfers
Total general revenues & transfers
Change in net assets
Net assets - beginning
Prior Period Adjustment
Net assets - ending

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business Activities	Total	Component Units
\$ (791,352)	\$ -	\$ (791,352)	\$ -
(1,058,900)	-	(1,058,900)	-
(337,342)	-	(337,342)	-
(121,211)	-	(121,211)	-
119,468	-	119,468	-
(668,367)	-	(668,367)	-
(143,432)	-	(143,432)	-
(155,545)	-	(155,545)	-
<u>(3,156,681)</u>	<u>-</u>	<u>(3,156,681)</u>	<u>-</u>
-	852,697	852,697	-
-	10,306	10,306	-
-	537,013	537,013	-
-	1,400,016	1,400,016	-
<u>(3,156,681)</u>	<u>1,400,016</u>	<u>(1,756,665)</u>	<u>-</u>
-	-	-	(1,369,383)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,369,383)</u>
\$ 1,147,211	\$ -	\$ 1,147,211	\$ -
2,087,499	-	2,087,499	698,957
229,691	-	229,691	-
7,003	-	7,003	-
-	210,697	210,697	-
9,095	-	9,095	-
11,859	7,174	19,033	6,955
-	20,000	20,000	-
38,531	69,182	107,713	90
18,276	-	18,276	12,160
331,682	(331,682)	-	-
<u>3,880,847</u>	<u>(24,629)</u>	<u>3,856,218</u>	<u>718,162</u>
724,166	1,375,387	2,099,553	(651,221)
8,522,365	11,267,782	19,790,147	1,442,906
527,848	(2,270)	525,578	151,010
<u>\$ 9,774,379</u>	<u>\$ 12,640,899</u>	<u>\$ 22,415,278</u>	<u>\$ 942,695</u>

The notes to the financial statements are an integral part of these financial statements

CITY OF CANTON, TEXAS
BALANCE SHEET - GOVERNMENT FUNDS
SEPTEMBER 30, 2010

	General Fund	Debt Service Fund	Total
ASSETS			
Cash and Cash Equivalents	\$ 387,320	\$ -	\$ 387,320
Receivables (net of allowances for uncollectible)	382,342	17,799	400,141
Due from EDC	-	-	-
Cash and Cash Equivalents - Restricted	392,104	983,211	1,375,315
Total Assets	<u>1,161,766</u>	<u>1,001,010</u>	<u>2,162,776</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	215,468	-	215,468
Other Liabilities	51,748	-	51,748
Deferred Revenue	19,644	17,443	37,087
Total Liabilities	<u>286,860</u>	<u>17,443</u>	<u>304,303</u>
Fund Balances			
Reserved for:			
Debt	-	983,567	983,567
Court Use	39,679	-	39,679
Capital Improvements	119,140	-	119,140
Unreserved-Undesignated reported in:			
General Fund	716,087	-	716,087
Total Fund Balances	<u>874,906</u>	<u>983,567</u>	<u>1,858,473</u>
Total Liabilities and Fund Balances	<u>\$ 1,161,766</u>	<u>\$ 1,001,010</u>	<u>\$ 2,162,776</u>

The accompanying notes are an integral part of these financial statements

CITY OF CANTON, TEXAS
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2010

Total fund balances - governmental funds balance sheet	\$ 1,858,473
Amounts reported for governmental activities in the statement of net assets are different because:	
Costs associated with the issuance of governmental long tem debt and expenses are incurred in the fund statements and are capitalized and amortized over the life of the debt in the government-wide statements.	53,253
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets are reported in the government-wide financial statements, net of accumulated depreciation	12,169,030
Interest payable on long term debt does not require current financial resources, therefore interest payable is not reported as a liability in the governmental funds balance sheet	(19,554)
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements	37,087
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the fund financial statements.	(4,323,910)
Net assets of governmental activities - statement of net assets	<u>\$ 9,774,379</u>

The notes to the financial statements are an integral part of these financial statements

CITY OF CANTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENT FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUE			
Property Taxes	\$ 346,395	\$ 800,816	\$ 1,147,211
Sales Tax Collected	2,087,499	-	2,087,499
Franchise Fees	229,691	-	229,691
Licenses and Permits	43,873	-	43,873
Fines and Forfeitures	167,744	-	167,744
Mixed Drink Taxes	7,003	-	7,003
Rental Income	30,325	18,276	48,601
Charge for Services	67,565	-	67,565
Grant Revenue	279,767	-	279,767
Donations	9,095	-	9,095
Investment Income	4,921	6,939	11,860
Total Revenues	<u>3,273,878</u>	<u>826,031</u>	<u>4,099,909</u>
EXPENDITURES			
Current:			
Administrative Services	795,167	-	795,167
Police	1,088,533	-	1,088,533
Fire	370,530	-	370,530
Municipal Court	158,935	-	158,935
Streets	436,294	-	436,294
Parks and Recreation	221,869	-	221,869
Animal Shelter	112,891	-	112,891
Debt Service:			
Principal Retirement	-	667,482	667,482
Interest and Fiscal Agent Fees	-	180,367	180,367
Capital Outlay:			
Administrative Services	65,632	-	65,632
Police	35,898	-	35,898
Fire	6,193	-	6,193
Street	90,450	-	90,450
Parks and Recreation	171,518	-	171,518
Total Expenditures	<u>3,553,910</u>	<u>847,849</u>	<u>4,401,759</u>
Excess (deficiency) of revenues over (under) expenditures	(280,032)	(21,818)	(301,850)
Other Revenues and Financing Sources (uses)			
Insurance Reimbursement	40,136	-	40,136
Miscellaneous	38,531	-	38,531
Transfers	360,695	(29,014)	331,681
Total Other Financing Sources (uses)	<u>439,362</u>	<u>(29,014)</u>	<u>410,348</u>
Net Change in Fund Balances	159,330	(50,832)	108,498
Fund Balances/Equity, October 1	715,576	1,034,399	1,749,975
Fund Balances/Equity, September 30	<u>\$ 874,906</u>	<u>\$ 983,567</u>	<u>\$ 1,858,473</u>

The notes to the financial statements are an integral part of these financial statements

**CITY OF CANTON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Net change in fund balances - total governmental funds \$ 108,498

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 369,691

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds. (470,680)

Bond issuance costs are expenditures in the fund financial statements when debt is issued, but it is amortized over the term of the bond in the government-wide financial statements. (10,559)

Premium and discounts are recognized in the fund financial statements as other financing sources or uses but these are amortized over the term of the bonds in the government-wide financial statements. 1,272

Current year long-term debt principal payments on contractual obligations, and bonds payable are expenditures in the fund financial statements but are shown as reductions in long-term debt in the government-wide financial statements. 667,480

Current year changes in the long-term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. 34,914

Current year changes in accrued interest payable do not require the use of current resources; therefore, are not reported as expenditures in governmental funds. 23,550

Change in net assets of governmental activities - statement of activities \$ 724,166

CITY OF CANTON, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2010

	Water/Sewer Fund	Sanitation Fund	First Monday Fund	Total
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ -	\$ 115,781	\$ 395,178	\$ 510,959
Accounts Receivables (net of allowance for uncollectible)	145,525	3,401	-	148,926
Total Current Assets	145,525	119,182	395,178	659,885
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	1,131,693	-	28,133	1,159,826
Deferred Charges	28,286	-	-	28,286
Note Receivable from component unit	973,738	-	-	973,738
Capital Assets:				
Land	299,257	-	349,216	648,473
Building	4,484,055	-	4,655,982	9,140,037
Machinery & Equipment	1,425,555	39,912	676,332	2,141,799
Infrastructure	7,815,464	-	2,077,973	9,893,437
Construction In Progress	535,671	-	32,790	568,461
Less: Accumulated Depreciation	(5,616,922)	(39,912)	(3,792,412)	(9,449,246)
Total Capital Assets (net of accumulated depreciation)	8,943,080	-	3,999,881	12,942,961
Total Noncurrent Assets	11,076,797	-	4,028,014	15,104,811
Total Assets	11,222,322	119,182	4,423,192	15,764,696
LIABILITIES				
Current Liabilities:				
Accounts Payable	69,457	46,931	81,691	198,079
Customer Deposits	81,365	-	-	81,365
Accrued Interest Payable	27,577	-	-	27,577
Other Liabilities	22,731	23,619	10,511	56,861
Deferred Revenues	12,312	-	-	12,312
Compensated Absences - current	8,317	-	-	8,317
Certificates of Obligation - current	110,550	-	-	110,550
Bonds Payable - current	200,000	-	-	200,000
Total Current Liabilities	532,309	70,550	92,202	695,061
Noncurrent Liabilities:				
Compensated Absences	47,160	1,228	15,960	64,348
Certificates of Obligation Payable (net of unamortized premiums and deferred amounts)	1,252,900	-	-	1,252,900
Revenue Bond Payable (net of unamortized discounts and deferred amounts)	1,111,488	-	-	1,111,488
Total Non-Current Liabilities	2,411,548	1,228	15,960	2,428,736
Total Liabilities	2,943,857	71,778	108,162	3,123,797
NET ASSETS				
Invested in Capital Assets (net of related debt)	5,512,200	-	3,999,881	9,512,081
Restricted for:				
Impact Fees	180,370	-	-	180,370
Capital Improvements	878,566	-	-	878,566
Hotel Tax Use	-	-	62,104	62,104
Unrestricted	1,707,329	47,404	253,045	2,007,778
Total Net Assets	\$ 8,278,465	\$ 47,404	\$ 4,315,030	\$ 12,640,899

The notes to the financial statements are an integral part of these financial statements

CITY OF CANTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Water/Sewer Fund	Sanitation Fund	First Monday Fund	Total
OPERATING REVENUES:				
Charges for Services	\$ 1,636,119	\$ 553,448	\$ 2,624,051	\$ 4,813,618
Hotel Tax	-	-	210,697	210,697
Total Operating Revenues	<u>1,636,119</u>	<u>553,448</u>	<u>2,834,748</u>	<u>5,024,315</u>
OPERATING EXPENSES:				
Personnel Costs	493,396	32,661	552,692	1,078,749
Supplies and Materials	221,411	846	194,918	417,175
Maintenance and Repair	235,988	3,154	180,638	419,780
Contractual Services	389,864	495,170	923,364	1,808,398
Other	36,085	11,311	11,799	59,195
Depreciation	380,555	-	223,627	604,182
Total Operating Expenses	<u>1,757,299</u>	<u>543,142</u>	<u>2,087,038</u>	<u>4,387,479</u>
Operating Income (Loss)	<u>(121,180)</u>	<u>10,306</u>	<u>747,710</u>	<u>636,836</u>
NON-OPERATING REVENUES (EXPENSES):				
Intergovernmental Revenues	-	-	20,000	20,000
Miscellaneous Revenues	5,712	-	63,470	69,182
Interest Expense	(93,867)	-	-	(93,867)
Bond Issuance Costs	(1,414)	-	-	(1,414)
Investment Income	1,502	-	5,672	7,174
Total Non-Operating Revenues (Expenses)	<u>(88,067)</u>	<u>-</u>	<u>89,142</u>	<u>1,075</u>
Contributions	1,069,158	-	-	1,069,158
Transfers	460,868	-	(792,550)	(331,682)
Change in Net Assets	1,320,779	10,306	44,302	1,375,387
Net assets - Beginning, October 1	6,957,686	37,098	4,272,998	11,267,782
Prior Period Adjustments	-	-	(2,270)	(2,270)
Net Assets - Ending, September 30	<u>\$ 8,278,465</u>	<u>\$ 47,404</u>	<u>\$ 4,315,030</u>	<u>\$ 12,640,899</u>

The notes to the financial statements are an integral part of these financial statements

CITY OF CANTON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Proprietary Funds</u>
Cash Flows from Operating Activities	
Cash Received from Customers	\$ 5,062,033
Cash Received from Other Sources	1,138,341
Cash Paid to Employees	(1,078,748)
Cash Paid to Suppliers	(2,656,661)
Net Cash Provided by Operating Activities	<u>2,464,965</u>
Cash Flows from Non-capital Financing Activities	
Contribution from EDC	(973,738)
Transfers from Primary Government	(331,682)
Net Cash Provided by Non-capital Financing Activities	<u>(1,305,420)</u>
Cash Flows from Capital and Related Financing Activities:	
Interest Paid on Capital Debt	(93,867)
Principal Paid on Capital Debt	747,560
Acquisition or Construction of Capital Assets	(1,616,858)
Disposal of Capital Assets	6,884
Net Cash Used for Capital & Related Financing Activities	<u>(956,281)</u>
Cash Flows from Investing Activities:	
Interest Income	7,174
Net Cash Provided by Capital & Related Financing Activities	<u>7,174</u>
Net Increase (Decrease) in Cash and Cash Equivalents	210,438
Cash and Cash Equivalents at Beginning of Year	1,460,347
Cash and Cash Equivalents at End of Year	<u>\$ 1,670,785</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operation Activities:	
Operating Income (Loss)	\$ 636,836
Adjustment to Reconcile Operating Income to Net	
Cash Provided by Operating Activities	
Intergovernmental Revenue	20,000
Miscellaneous Revenue	69,182
Prior Period Adjustment	(2,270)
Depreciation expense	604,182
Capital Contributions	1,069,158
Change in Assets and Liabilities	
Decrease (Increase) in Receivables	61,133
Increase (Decrease) in Accounts Payable	39,576
Increase (Decrease) in Accrued Expenses	8,839
Increase (Decrease) in Deferred Revenues	546
Increase (Decrease) in Other Liabilities	(42,217)
Total Adjustments	<u>1,828,129</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,464,965</u>

The notes to the financial statements are an integral part of these financial statements

CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

A. Summary of Significant Accounting Policies

The combined financial statements of the City of Canton, Texas ("City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental and accounting financial reporting principles.

1. Reporting Entity

The City is a municipal corporation governed by an elected mayor and five-member council and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity", as amended by GASB 39, "Determining Whether Certain Organizations are Component Units".

Under GASB 14, component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The financial statements of the component units may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government. GASB 39 added clarification to GASB 14 including entities which meet all three of the following requirements:

1. The economic resources received or held by the separate organization are entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to other access, are significant to the primary government.

The financial statements of the following component units have been "discretely presented" in the accompanying report because (i) their governing boards are not substantially the same as the governing body of the City, or (ii) the component unit provides services entirely or almost entirely to the citizenry and not the City.

Discretely presented component units. The City has one component unit, Canton Economic Development Corporation ("CEDC"). The CEDC was incorporated March 12, 1997. The CEDC is governed by a seven-member board appointed by and serving at the pleasure of the City Council. Thus, the CEDC is legally separate, but due to the City appointing the voting majority of the CEDC board, it is classified as a discretely presented component unit. The funding for the CEDC occurs by the City transferring 1/4 of sales tax collected by the City to the CEDC. Adding the creation of the CEDC to the resources currently available will more than double the current ability to assist economic development prospects. All of the CEDC funding can be used for direct assistance to prospects and continued development of infrastructure. The nature and significance of the relationship between the primary government and the organization is such that exclusion would cause the City's financial statement to be misleading or incomplete. Separate financial statements are also issued for the CEDC. These financial statements can be obtained by contacting the Canton EDC located at 119 N. Buffalo Street, Canton Texas.

CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

A. Summary of Significant Accounting Policies (continued)

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

The basic financial statements are prepared in conformity with GASB Statement No. 34 which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and business-type activities on the statement of net assets and statement of activities. Significantly, the City's statement of net assets include both noncurrent assets and noncurrent liabilities. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which use the modified accrual basis of accounting and the current financial resource measurement focus for the governmental funds. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The City's basic financial statements include all accounts of all City operations. In evaluating how to define the government for financial reporting purposes, management has considered all entities for which the City is considered to be financially accountable. As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statements of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and proprietary funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings result from non-exchange transactions or ancillary activities.

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. The government-wide and proprietary fund financial statements follow the accounting set forth by the Governmental Accounting Standards Board and all pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989.

CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

A. Summary of Significant Accounting Policies

2. Basis of Presentation, Basis of Accounting (continued)

b. Measurement Focus, Basis of Accounting

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of sales taxes and property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed changes and capital improvements costs that are not paid through other funds are paid from the General Fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt paid from taxes levied by the City.

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water, sewer and environmental waste services are charges to customers for sales and services. Operating expenses for Proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendment of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen not to apply future FASB standards.

The City reports the following major enterprise funds:

The *Water and Sewer Funds* account for the operations of the water and sanitary sewer utilities which are self-supporting activities rendering services on a user-charge basis. Water and sewer impact fees are also accumulated in these funds.

The *Sanitation Fund* accounts for the solid waste services of the City which is a self-supporting activity rendering services on a user-charge basis.

CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

A. Summary of Significant Accounting Policies

2. Basis of Presentation, Basis of Accounting

b. Measurement Focus, Basis of Accounting (continued)

The *First Monday Fund* accounts for the operations of the City's First Monday Trade Days, which is a self-supporting activity.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City pools cash from all fund types (excluding certain restricted assets that are considered cash and cash equivalents) to increase the amount of funds available for investment. Investments held by the City that have a remaining maturity of greater than one year from purchase are carried at fair value. Interest earnings are allocated to the respective funds based upon each fund's relative balance in the pool. Each fund may liquidate its equity in the pool on demand.

b. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation.

Trade and property tax receivables are shown net of an allowance for uncollectibles.

c. Property Taxes

Property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Assessed value represents the appraisal value less applicable exemptions authorized by the City Council. The Appraisal Board of Review establishes appraised values at 100% for estimated market value. A tax lien attaches to the property on January 1 of each year to secure the payment of all taxes, penalties and interest ultimately imposed for the year on that property, whether or not the taxes are imposed in the year the lien attaches.

Taxes are due October 1 immediately following the levy date and are delinquent after the following January 31st. Revenues are recognized as the related ad valorem taxes are collected. Additional delinquent property taxes estimated to be collectible within 60 days following the close of the fiscal year have been recognized as a revenue at fund level.

In Texas, county-wide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its market value and are prohibited from applying any assessment ratio. The value of property within the appraisal district must be reviewed every five years; however, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, take legal action. Under this legislation, the City continues to set tax rates on City property. However, if the effective tax rate, including tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

The statutes of the State of Texas do not prescribe a legal debt limit. However, Article XI, Section 5 of the Texas Constitution applicable to cities of more than 5,000 population limits the ad valorem tax rate to \$2.50 per \$100 assessed valuation. For the current fiscal year, the City had a tax rate of \$0.42523 per \$100 assessed valuation based upon the maximum rates described above.

CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

A. Summary of Significant Accounting Policies

3. Financial Statement Amounts (continued)

d. Inventories, Prepaid Items and Deferred Charges

The City maintains supplies on hand necessary for repairs and maintenance. Supplies are not reflected as inventory but are recorded as expenditures when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The City did not have any prepaid items at the end of the current fiscal year.

Deferred charges reported at the government-wide level and in proprietary funds are comprised of the balance of unamortized debt issuance costs. Issuance costs are amortized over the life of the related debt using a straight-line method.

e. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the governmental funds represent cash and cash equivalents and investments set aside for specific capital additions, returning developer's escrow funds and various bond covenants. Restricted assets in the enterprise funds represent cash and cash equivalents and investments set aside for repayment of deposits to utility customers, specific capital, additions, and various bond covenants.

Impact fees are the capital recovery fees that are, by law, restricted to the projects these funds may be used to support.

Customer deposits received for the water and wastewater service are, by law, to be considered restricted assets. These activities are included in the Water and Sewer Funds.

f. Capital Assets

Capital assets, which include land, buildings, equipment, and improvements, purchased or acquired, are in the applicable governmental or business-like activities columns in the government-wide financial statements and proprietary fund types. The City defines capital assets as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical if historical cost is not available. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets of business-like activities is included as part of the capitalized value of the assets constructed. The City did not capitalize any interest during the year ended September 30, 2010.

Management elected not to retroactively report infrastructure assets within the scope of GASB 34.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	15 - 40
Building Improvements	10 - 40
Machinery and equipment	5 - 20

CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

A. Summary of Significant Accounting Policies

3. Financial Statement Amounts (continued)

g. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, overtime not paid (comp time) and sick pay benefits. All vacation and comp time is accrued at the close of the fiscal year in the government-wide and proprietary fund financial statements. An employee's sick pay accrual does not begin until they have been employed with the City for ten years and a maximum of 480 hours is accrued.

h. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

i. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balances represent management plans that are subject to change and are approved by City Council.

j. Comparative Data/Reclassification

Comparative total data for the current year to budget have been presented in the supplementary section of the financial statements in order to provide an understanding of budget to actual. Also, certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

k. Interfund Activity

Interfund activity results from loans, services provided, reimbursements, or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Service provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

l. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

m. Program Revenues

Certain revenues such as charges for services and impact fees are included in program revenues.

**CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

A. Summary of Significant Accounting Policies

3. Financial Statement Amounts (continued)

n. Program Expenditures

Certain indirect costs such as administrative costs are included in the program expenditures reported for individual functional activities.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations.

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>
None reported	Not applicable

3. Budgets and Budgetary Accounting

The City adopts an "appropriated budget" of governmental fund types on the modified accrual basis of accounting by department. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures.

The following procedures are followed in establishing the budgetary data:

- No later than the first City Council meeting each August, the City Manager submits to the City Council a proposed budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to September 30, the budget is legally enacted through passage of an ordinance. If the Council takes no action on or prior to such day, the budget, as submitted by the City Manager, shall be deemed to have been adopted by the City Council.
- Budgets for the General Fund and Debt Service Fund are legally adopted on a basis consistent with GAAP. The majority of the City's Capital Projects Funds are budgeted on an annual basis.
- According to the Local Government Code for General Law A cities, total estimated expenditures of the General Fund and Debt Service Fund are to be budgeted.
- The level of control (the level at which expenditures may not exceed budget) is the fund level. The City Manager is authorized to approve a transfer of budgeted amounts within departments; however, any revisions that alter the total of any fund must be approved by the City Council.

**CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

C. Cash and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect the City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent the depository banks dollar amount of Federal Deposit Insurance Corporation ("FDIC") Insurance.

Cash Deposits

At September 30, 2010, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,433,420, and the bank balance was \$3,466,122. The City's cash deposits at September 30, 2010 and during the year ended September 30, 2010 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. The amount of deposits covered by collateralized securities was \$2,930,079. Cash and investments as of September 30, 2010 consist of and are classified in the accompanying financial statements as follows:

Statement of net assets:

Primary Government

Cash and cash equivalents	\$ 898,279
Restricted assets-cash & cash equivalents	2,535,141
Total cash and cash equivalents	<u>\$ 3,433,420</u>

Governmental - Restricted cash

Municipal Court - technology, building security	\$ 39,679
Debt Service	983,211
Capital Projects	349,851
Flex	2,574
	<u>1,375,315</u>

Business-type - Restricted cash

Customer Deposits	81,365
Use of Impact Fees	180,370
Capital Projects	878,565
Hotel Tax	19,526
	<u>1,159,826</u>

Total Restricted Cash	<u>\$ 2,535,141</u>
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Investments:

The Public Funds Investment Act ("Act") (Government Code Chapter 2256) requires the City to have an independent auditor perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "non-participating" means that the investments value does not vary with market interest rate changes. Non-negotiable certificates of deposits are examples of nonparticipating interest-earning investment contracts.

CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

C. Cash and Investments (continued)

Investment in State Investment Pools

The City is a voluntary participant in Texpool. The Texas Local Investment Pool is a local government investment pool which operates in a manner consistent with SEC's Rule 2a7 of the Investment Company Act of 1940. This type of investment pool uses amortized costs rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool. The Texas Local Government Investment Pool is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Pool is governed by an Advisory Board composed equally of participants in the Pool and other persons who do not have a business relationship with the Pool who are qualified to advise the Pool.

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAm by Standard and Poor's. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard and Poor's, as well as the office of the Comptroller for public review.

Disclosure relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days thus reducing the interest rate risk.

As of September 30, 2010, the City had the following investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
TexPool	\$ 1,009,098	42 days

At this time, the City does not have any investments inherent to interest rate risk.

Custodial Credit Risk

To control custody and safekeeping risk, State law and the City's adopted investment policy require collateral for all time and demand deposits, as well as collateral for repurchase agreements, be transferred delivery versus payment and held by an independent party approved by the City and held in the City's name. The custodian is required to provide original safekeeping receipts and monthly reporting of positions with position descriptions including market value. Repurchase agreements and deposits must be collateralized to 102% and be executed under written agreements. Depository agreements are executed under agreements. Depository agreements are executed under the terms of U.S. Financial Institutions Resource and Recovery Enforcement Act (FIRREA). The counter-party of each type transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis.

As of September 30, 2010, the City's deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

D. Receivables

Receivables as of year-end for the City's individual major funds and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	General	Proprietary	Debt Service	Total
Receivables				
Taxes	\$ 372,314	\$ -	\$ 17,799	\$ 390,113
Warrants	650,602	-	-	650,602
Fees and Charges	-	160,173	-	160,173
Gross Receivables	1,022,916	160,173	17,799	1,200,888
Less: Allowance for Uncollectibles	(640,574)	(11,247)	-	(651,821)
Total Net Receivables	<u>\$ 382,342</u>	<u>\$ 148,926</u>	<u>\$ 17,799</u>	<u>\$ 549,067</u>

E. Capital Assets

Capital asset activity for the period ended September 30, 2010 was as follows:

	Beginning Balances	Prior Period Adjustments	Transfers	Additions	Decreases	Ending Balances
Governmental Activities:						
Capital assets, not being depreciated						
Land	\$ 2,691,090	\$ -	\$ -	\$ 65,632	\$ -	\$ 2,756,722
Construction in Progress	446,182	(750)	-	174,126	-	619,558
Total capital assets, not being depreciated	<u>3,137,272</u>	<u>(750)</u>	<u>-</u>	<u>239,758</u>	<u>-</u>	<u>3,376,280</u>
Capital assets, being depreciated:						
Buildings & Improvements	1,047,881	(24,533)	-	-	-	1,023,348
Infrastructure	8,115,186	580,587	-	76,499	-	8,772,272
Machinery & Equipment	1,577,141	(3,006)	-	53,433	-	1,627,568
Total capital assets being depreciated	<u>10,740,208</u>	<u>553,048</u>	<u>-</u>	<u>129,932</u>	<u>-</u>	<u>11,423,188</u>
Less accumulated depreciation for:						
Buildings & Improvements	(482,532)	(20,343)	-	(57,958)	-	(560,833)
Infrastructure	(842,386)	(3,574)	-	(264,976)	-	(1,110,936)
Machinery & Equipment	(810,388)	(535)	-	(147,746)	-	(958,669)
Total accumulated depreciation	<u>(2,135,306)</u>	<u>(24,452)</u>	<u>-</u>	<u>(470,680)</u>	<u>-</u>	<u>(2,630,438)</u>
Total capital assets, being depreciated, net	<u>8,604,902</u>	<u>528,596</u>	<u>-</u>	<u>(340,748)</u>	<u>-</u>	<u>8,792,750</u>
Governmental activities capital assets, net	<u>\$ 11,742,174</u>	<u>\$ 527,846</u>	<u>\$ -</u>	<u>\$ (100,990)</u>	<u>\$ -</u>	<u>\$ 12,169,030</u>

CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

E. Capital Assets (continued)

	Beginning Balances	Prior Period Adjustments	Transfers	Additions	Decreases	Ending Balances
Business-type Activities:						
Water/Sewer/Sanitation						
Capital assets, not being depreciated						
Land	\$ 248,652	\$ -	\$ -	\$ 50,605	\$ -	\$ 299,257
Construction in Progress	755,005	25,950	(269,042)	23,758	-	535,671
Total capital assets, not being depreciated	1,003,657	25,950	(269,042)	74,363	-	834,928
Capital assets, being depreciated:						
Buildings & Improvements	4,460,055	24,000	-	-	-	4,484,055
Infrastructure	6,758,408	(51,414)	269,042	839,428	-	7,815,464
Machinery & Equipment	1,463,788	1,679	-	-	-	1,465,467
Total capital assets being depreciated	12,682,251	(25,735)	269,042	839,428	-	13,764,986
Less accumulated depreciation for:						
Buildings & Improvements	(2,267,842)	-	-	(129,950)	-	(2,397,792)
Infrastructure	(2,338,849)	(209)	-	(199,008)	-	(2,538,066)
Machinery & Equipment	(669,379)	-	-	(51,597)	-	(720,976)
Total accumulated depreciation	(5,276,070)	(209)	-	(380,555)	-	(5,656,834)
Total capital assets, being depreciated, net	7,406,181	(25,944)	269,042	458,873	-	8,108,152
Business-type activities capital assets, net	\$ 8,409,838	\$ 6	\$ -	\$ 533,236	\$ -	\$ 8,943,080
	Beginning Balances	Prior Period Adjustments	Transfers	Additions	Decreases	Ending Balances
First Monday						
Capital assets, not being depreciated						
Land	\$ 349,216	\$ -	\$ -	\$ -	\$ -	\$ 349,216
Construction in Progress	32,790	-	-	-	-	32,790
Total capital assets, not being depreciated	382,006	-	-	-	-	382,006
Capital assets, being depreciated:						
Buildings	3,957,534	-	-	698,448	-	4,655,982
Infrastructure	2,077,973	-	-	-	-	2,077,973
Machinery & Equipment	671,927	4,405	-	-	-	676,332
Total capital assets being depreciated	6,707,434	4,405	-	698,448	-	7,410,287

CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

E. Capital Assets (continued)

	Beginning Balances	Prior Period Adjustments	Transfers	Additions	Decreases	Ending Balances
Less accumulated depreciation for:						
Buildings	(1,356,508)	(6,676)	-	(130,825)	-	(1,494,009)
Infrastructure	(1,719,188)	-	-	(42,905)	-	(1,762,093)
Machinery & Equipment	(486,413)	-	-	(49,897)	-	(536,310)
Total accumulated depreciation	(3,562,109)	(6,676)	-	(223,627)	-	(3,792,412)
Total capital assets, being depreciated, net	3,145,325	(2,271)	-	474,821	-	3,617,875
Business-type activities capital assets, net	<u>\$ 3,527,331</u>	<u>\$ (2,271)</u>	<u>\$ -</u>	<u>\$ 474,821</u>	<u>\$ -</u>	<u>\$ 3,999,881</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 18,703
Public Service	8,327
Public Safety	135,021
Public Works, including depreciation of general infrastructure assets	252,602
Parks and Recreation	56,027
Total depreciation expense - governmental activity	<u>\$ 470,680</u>
Business-type activities:	
Water, Sewer, Sanitation	\$ 380,555
First Monday	223,627
Total depreciation expense - business-type activity	<u>\$ 604,182</u>

F. Long-Term Obligations

A summary of long-term debt transactions, including the current portion, for the year ended September 30, 2010 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Governmental Activities					
Certificates of Obligation	\$ 2,005,330	\$ -	\$ (113,780)	\$ 1,891,550	\$ 114,450
Refunding Bonds	1,990,000	-	(475,000)	1,515,000	490,000
Limited Tax Note	469,987	-	(19,398)	450,589	26,362
Plus:					
Issuance premiums	10,212	-	(2,553)	7,659	(2,553)
Less:					
Issuance discounts	(11,524)	-	1,281	(10,243)	1,281
Total Bonds Payable	4,464,005	-	(609,450)	3,854,555	629,540
Notes Payable	398,348	-	(59,304)	339,044	-
Total Bonds/Notes Payable	4,862,353	-	(668,754)	4,193,599	629,540
Compensated absences	165,226	-	(34,914)	130,312	16,683
Governmental activity Long-term Debt	<u>\$ 5,027,579</u>	<u>\$ -</u>	<u>\$ (703,668)</u>	<u>\$ 4,323,911</u>	<u>\$ 646,223</u>

CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

F. Long-Term Obligations (continued)

Changes in Governmental Long-Term Debt

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding September 30 2009	Issued	Retired	Amounts Outstanding September 30 2010	Due Within One Year
2007 Cert of Oblig	4.00%	\$ 1,400,000	\$ 1,275,000	\$ -	\$ 55,000	\$ 1,220,000	\$ 60,000
2008 Limited Tax Note	4.35%	500,000	469,987	-	19,398	450,589	26,362
2008 Refunding Bond	3.099%	2,460,000	1,990,000	-	475,000	1,515,000	490,000
Series 2003-W/S	4% - 4.4%	1,000,000	730,330	-	58,780	671,550	54,450
Total Bonds Payable		5,360,000	4,465,317	-	608,178	3,857,139	630,812
ANB Notes	5.5%- 6.27%	195,133	398,348	-	59,304	339,044	30,714
		<u>\$ 5,555,133</u>	<u>\$ 4,863,665</u>	<u>\$ -</u>	<u>\$ 667,482</u>	<u>\$ 4,196,183</u>	<u>\$ 661,526</u>

Debt service requirements are as follows:

Year Ending September 30:	Principal	Interest	Total Requirements
2011	\$ 630,812	\$ 95,855	\$ 726,667
2012	660,182	90,107	750,289
2013	692,954	83,779	776,733
2014	307,480	76,735	384,215
2015	628,663	709,922	1,338,585
2016-2020	937,048	78,078	1,015,126
Totals	<u>\$ 3,857,139</u>	<u>\$ 1,134,476</u>	<u>\$ 4,991,615</u>

\$1,400,000 Series 2007 Certificates of Obligation bonds were issued September, 2008 for the purpose of constructing, improving & repairing streets.

\$500,000 Limited Tax Note was issued in November, 2008 for the purpose of purchasing land and construction of improvements for police department, public works office and other city offices.

\$1,000,000 Series 2003 Combination Tax and Revenue Certificate of Obligations were issued for the purpose of street improvements, water/sewer improvements, water treatment plant improvements, ground storage tank and expansion of wastewater treatment plant.

\$2,460,000 Series 2008 Refunding Bonds were issued for the purpose of refinancing the 1995 bonded debt balance and street improvements

The City incurred a notes payable with American National Bank in the amount of \$380,000 for the purchase of a fire truck on August 20, 2009. This note is to be repaid over a period of 10 years with an annual payment of \$47,757.

The City incurred a notes payable with American National Bank in the amount of \$143,700 for the purchase of an EMS building in the year 2005. This note is to be repaid over a period of 5 years with an annual payment of \$19,379.

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Business-type Activities					
Water & Sewer					
Certificate of Obligations	\$ 1,459,671	\$ -	\$ (96,221)	\$ 1,363,450	\$ 110,550
Refunding Bonds	420,000	-	(160,000)	260,000	165,000
Revenue Bonds	-	1,060,000	(15,000)	1,045,000	35,000
Plus:					
Issuance premiums	5,469	2,505	(1,486)	6,488	1,487
Total Bonds Payable	1,885,140	1,062,505	(272,707)	2,674,938	312,037
Compensated absences	44,578	26,710	(14,583)	56,705	6,487
Total Water & Sewer	<u>\$ 1,929,718</u>	<u>\$ 1,089,215</u>	<u>\$ (287,290)</u>	<u>\$ 2,731,643</u>	<u>\$ 318,524</u>

CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

F. Long-Term Obligations (continued)

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
First Monday					
Notes Payable	\$ 26,315	\$ -	\$ (26,315)	\$ -	\$ -
Compensated absences	14,311	1,649	-	15,960	1,830
Total First Monday	40,626	1,649	(26,315)	15,960	1,830
Business-type activity					
Long-term debt	\$ 1,970,344	\$ 1,090,864	\$ (313,605)	\$ 2,747,603	\$ 320,354

Changes in Water Sewer Long-Term Debt

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding September 30 2009	Issued	Retired	Amounts Outstanding September 30 2010	Due Within One Year
Series 2003- Refunding	2.5% - 3.5%	\$ 2,230,000	\$ 420,000	\$ -	\$ 160,000	\$ 260,000	\$ 165,000
Series 2003-W/S	4% - 4.4%	2,000,000	1,459,671	-	96,221	1,363,450	110,550
Series 2010-Revenue	4.25%-4.4%	1,060,000	-	1,060,000	15,000	1,045,000	35,000
		\$ 4,230,000	\$ 1,879,671	\$ -	\$ 256,221	\$ 2,668,450	\$ 310,550

Debt service requirements are as follows:

Year Ending September 30:	Principal	Interest	Total Requirements
2011	\$ 310,550	\$ 110,309	\$ 420,859
2012	272,350	98,625	370,975
2013	200,800	88,106	288,906
2014	217,550	79,974	297,524
2015	224,250	71,172	295,422
2016-2020	817,950	214,473	1,032,423
2021-2025	280,000	111,310	391,310
2026-2030	345,000	46,640	391,640
Totals	\$ 2,668,450	\$ 820,609	\$ 3,489,059

\$2,230,000 Series 2003 Refunding Bonds were issued for the purpose of refinancing 1992 and 1994 bonds.

\$2,000,000 Series 2003 Combination Tax and Revenue Certificate of Obligations were issued for the purpose of street improvements, water/sewer improvements, water treatment plant improvements, ground storage tank and expansion of wastewater treatment plant.

\$1,060,000 Series 2010 Revenue Bonds were issued for the purpose of acquiring, installing, constructing and equipping additions, improvements and extensions to the City's waterworks and sewer system.

Changes in First Monday Long-Term Debt

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding September 30 2009	Issued	Retired	Amounts Outstanding September 30 2010	Due Within One Year
American National Bank	4.00%	133,000	26,315	-	26,315	-	-
		\$ 133,000	\$ 26,315	\$ -	\$ 26,315	\$ -	\$ -

**CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

G. Bond Issuance Costs

The City incurred various bond issuance fees upon issuance of long-term obligation debt. These fees are amortized over the life of the bonds. The following is a schedule of these fees:

General Fund	Fees	Prior Years Amortization Expense	Current Year Amortization Expense	Balance	Due Within One Year
2008 GO bond issue fees	\$ 41,624	\$ 16,650	\$ 6,244	\$ 18,730	\$ 8,325
2007 CO bond issue fees	48,548	9,710	4,315	34,523	6,296
Totals	<u>\$ 90,172</u>	<u>\$ 26,360</u>	<u>\$ 10,559</u>	<u>\$ 53,253</u>	<u>\$ 14,621</u>

Proprietary Fund	Fees	Prior Years Amortization Expense	Current Year Amortization Expense	Balance	Due Within One Year
2010 Revenue Bonds	\$ 29,700	\$ -	\$ 1,414	\$ 28,286	\$ 1,414
Totals	<u>\$ 29,700</u>	<u>\$ -</u>	<u>\$ 1,414</u>	<u>\$ 28,286</u>	<u>\$ 1,414</u>

H. Pension Plan

1. Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. Benefits depend upon the sum of the employee contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150% or 200%) of the employees accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employees accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current contribution rate and City matching percent had been in existence and if the employees salary and always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS, the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800.924.8677; in addition, the report is available on TMRS' website at www.TMRS.com.

Plan provisions for the City were as follows:

Deposit Rate:	7%
Matching Ratio (City to Employee):	2 to 1
A member is vested after	5 yrs
Members can retire at certain ages, based on the years of service with the City.	
The Service Retirement Eligibilities for the City are: 5 yrs/age 60, 20 yrs/any age.	
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating

CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

H. Pension Plan (continued)
2. Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employees contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2009 valuations effective for rates beginning January 2010).

City of Canton			
Schedule of Actuarial Liabilities and Funding Progress			
Actuarial Valuation Date	12/31/07	12/31/08	12/31/09
Actuarial Value of Assets	\$ 2,523,956	\$ 2,889,423	\$ 3,152,021
Actuarial Accrued Liability	4,581,957	4,843,773	5,174,320
Percentage Funded	55.1%	59.7%	60.9%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	2,058,001	1,954,350	2,022,299
Annual Covered Payroll	2,024,862	2,224,830	2,311,292
UAAL as a Percentage of Covered Payroll	101.6%	87.8%	88.8%
Net Pension Obligation (NPO) at the Beginning of Period	\$ -	\$ -	\$ -
Annual Pension Cost:			
Annual required contribution (ARC)	Plus 290,177	326,248	353,628
Contributions Made	Less (290,177)	(326,248)	(353,628)
NPO at the end of the period	\$ -	\$ -	\$ -
Actuarial cost method	Unit Credit	Unit Credit	Unit Credit
Amortization method	Level %	Level %	Level %
Asset Valuation method	Amortized	Amortized	10-year
	Cost	Cost	Smoothed Market
Amortization period	30 years; closed	29 years; closed	28 years; closed
Actuarial assumptions:			
Investment rate of return	7%	7.5%	7.5%
Inflation rate	3%	3%	3%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

3. Group-term Life Insurance

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit", or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

H. Pension Plan

3. Group-term Life Insurance (continued)

The City's contributions to the TMRS SDBF for the years ended 2010, 2009 and 2008 were \$6,240, \$6,007 and \$5,467, respectively, which equaled the required contributions each year.

I. Health Care Coverage

During the year ended September 30, 2010, employees of the City were covered by a health insurance plan (the Plan). The City contributed \$422.48 per month per employee and \$100 of the cost for dependents. Employees, at their option, authorized payroll withholdings to pay contributions for dependents. All contributions were paid to the insurance carrier. The Plan was authorized by article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

J. Insurance Coverage

Below is a schedule of insurance in force.

Company	Policy Number	Description of Coverage	Amount of Coverage	Period Covered	Premium	Deductible
Liability Coverage:						
TX Municipal League	4477	General	1,000,000 per occurrence	10/01/09 to 10/01/10	\$ 9,058	\$ -
TX Municipal League	4477	Errors & Omissions	1,000,000 per occurrence	10/01/09 to 10/01/10	\$ 14,247	\$ 1,000
TX Municipal League	4477	Automobile	1,000,000 per claim	10/01/09 to 10/01/10	\$ 10,573	\$ -
TX Municipal League	4477	Law Enforcement	1,000,000 per occurrence	10/01/09 to 10/01/10	\$ 7,487	\$ 5,000
Property Coverage:						
TX Municipal League	4477	Real and Personal	1,000,000 per accident	10/01/09 to 10/01/10	\$ 22,658	\$ 1,000
TX Municipal League	4477	Airport	1,000,000 per occurrence	10/01/09 to 10/01/10	\$ 1,519	\$ -
TX Municipal League	4477	Mobile Equipment	391,300	10/01/09 to 10/01/10	\$ 2,257	\$ 500
TX Municipal League	4477	Boiler	1,000,000	10/01/09 to 10/01/10	included	\$ 1,000
TX Municipal League	4477	Automobile-Phys. Dm.	Comprehensive Scheduled	10/01/09 to 10/01/10	\$ 6,435	\$ 500

In accordance with state statute, the City was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through Texas Municipal League, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims up to \$125,000 and for aggregate loss. According to the latest actuarial opinion dated October 1, 2009, the unfunded claim benefit obligation included no reported claims that were unpaid and no estimated claims incurred, but not reported.

**CITY OF CANTON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

K. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City had general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reimbursement. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

L. Litigation

Currently, management is unaware of significant pending litigation against the City of Canton, Texas.

M. Additional Water and Sewer Information

The following information is included at the request of the Texas Water Development Board for the year under audit. Water Accountability Report:

Gallons Pumped	273,903,000
Gallons Billed	214,669,588

N. Prior Period Adjustments

Prior period adjustments were made in the governmental type funds in the amount of \$527,848 to adjust the beginning balance of the infrastructure capital assets. The prior period adjustment made in the business-type funds in the amount of \$2,270 is also to adjust the beginning balance of capital assets.

O. Interfund Transfers

	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund	\$ -	\$ 1,029,450
Debt Service Fund	697,768	-
Water/Sewer Funds	-	460,868
First Monday Fund	792,550	-
Total Transfers	<u>\$ 1,490,318</u>	<u>\$ 1,490,318</u>

P. Subsequent Events

The City has evaluated all events or transactions that occurred after September 30, 2010 up through March 8, 2011, the date the financial statements were issued. During the month of October 2010 the City issued \$750,000 Tax Notes for the purpose of street improvements. There were no other subsequent events requiring disclosure.

REQUIRED SUPPLEMENTARY INFORMATION



CITY OF CANTON, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

SCHEDULE OF PENSION TRUST - TMRS FUNDING PROGRESS AND CONTRIBUTIONS
 LAST FOUR FISCAL YEARS (UNAUDITED)

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) -Unit Credit	(Over-funded)		Funded Percent	Covered Payroll	UAAL as Percent of Covered Payroll	Annual Required Contributions	Actual Contributions	Percent Contributed
				Actuarial Accrued Liability UAAL	Actuarial Accrued Liability UAAL						
2007	12/31/2006	\$2,133,962	\$ 3,506,012	\$ 1,372,050		60.87%	1,869,660	73.39%	265,048	265,048	100%
2008	12/31/2007	\$2,523,956	\$ 4,581,957	\$ 2,058,001		55.10%	2,024,862	101.6%	290,177	290,177	100%
2009	12/31/2008	\$2,889,423	\$ 4,843,773	\$ 1,954,350		59.70%	2,224,830	87.80%	326,248	326,248	100%
2010	12/31/2009	\$3,152,021	\$ 5,174,320	\$ 2,022,299		60.90%	2311292	88.80%	\$ 353,628	\$ 353,628	100%

CITY OF CANTON, TEXAS
GENERAL FUND - SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUE				
Mixed Drink Tax	\$ 7,000	\$ 7,000	\$ 7,003	\$ 3
Property Tax	337,500	337,500	346,395	8,895
Fines and Forfeitures	237,500	179,500	167,744	(11,756)
Licenses and Permits	62,000	62,000	43,873	(18,127)
Sales Tax Collected	2,156,000	2,064,000	2,087,499	23,499
Franchise Fees	250,000	250,000	229,691	(20,309)
Charge for Services	67,200	67,200	67,565	365
Grant Revenue	250,000	353,000	279,767	(73,233)
Rental Income	36,240	36,240	30,325	(5,915)
Donations	1,400	1,400	9,095	7,695
Investment Income	5,000	5,000	4,921	(79)
Total Revenues	3,409,840	3,362,840	3,273,878	(88,962)
EXPENDITURES				
Administrative Services	936,680	1,002,315	860,799	141,516
Public Safety - Police	1,123,200	1,123,200	1,124,431	(1,231)
Public Safety - Fire	816,440	822,640	376,723	445,917
Municipal Court	197,970	197,970	158,935	39,035
Streets	278,135	603,935	526,744	77,191
Parks and Recreation	542,095	476,245	393,387	82,858
Animal Shelter	118,615	118,615	112,891	5,724
Total Expenditures	4,013,135	4,344,920	3,553,910	791,010
Excess (deficiency) of revenues over (under) expenditures	(603,295)	(982,080)	(280,032)	702,048
Other Revenues and Financing Sources (uses)				
Operating Transfers In	537,500	536,685	360,695	(175,990)
Insurance Reimbursement	-	-	40,136	40,136
Note Proceeds	380,000	380,000	-	(380,000)
Sale of Assets	-	-	-	-
Intergovernmental Revenues	97,275	97,275	-	(97,275)
Miscellaneous	24,600	24,600	38,531	13,931
Total Other Financing Sources (uses)	1,039,375	1,038,560	439,362	(599,198)
Excess of revenues and other financing sources over (under) expenditures and other financing uses	436,080	56,480	159,330	102,850
Fund Balances/Equity, October 1	715,576	715,576	715,576	
Prior Period Adjustment	-	-	-	
Fund Balances/Equity, September 30	\$ 1,151,656	\$ 772,056	\$ 874,906	

SUPPLEMENTARY INFORMATION



CITY OF CANTON, TEXAS
BUDGETARY COMPARISON SCHEDULE - DEBT SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUE				
Property Taxes	\$ 782,820	\$ 782,820	\$ 800,816	\$ 17,996
Rental Income	18,300	18,300	18,276	(24)
Investment Income	5,000	5,000	6,939	1,939
Total Revenues	<u>806,120</u>	<u>806,120</u>	<u>826,031</u>	<u>19,911</u>
EXPENDITURES				
Debt Service				
Principal Retirement	1,055,340	1,023,740	667,482	356,258
Interest and Fiscal Agent Fees	309,065	301,030	180,367	120,663
Total Expenditures	<u>1,364,405</u>	<u>1,324,770</u>	<u>847,849</u>	<u>476,921</u>
Excess (deficiency) of revenues over	(558,285)	(518,650)	(21,818)	496,832
Other Revenues and Financing Sources (uses)				
Miscellaneous Income	-	-	-	-
Transfers	538,410	328,775	(29,014)	(357,789)
Total Other Financing Sources (uses)	<u>538,410</u>	<u>328,775</u>	<u>(29,014)</u>	<u>(357,789)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(19,875)	(189,875)	(50,832)	139,043
Fund Balances/Equity, October 1	<u>1,034,399</u>	<u>1,034,399</u>	<u>1,034,399</u>	
Fund Balances/Equity, September 30	<u>\$ 1,014,524</u>	<u>\$ 844,524</u>	<u>\$ 983,567</u>	

CITY OF CANTON, TEXAS
GENERAL FUND
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Difference</u>
<u>Administrative Services</u>				
Payroll Costs	\$ 550,565	\$ 550,565	\$ 462,714	\$ 87,851
Supplies	56,800	56,800	57,490	(690)
Contract Services	270,775	270,775	230,998	39,777
Maintenance	34,600	34,600	32,174	2,426
Capital Outlay	-	65,635	65,632	3
Other Disbursements	23,940	23,940	11,791	12,149
Total Expenditures	<u>936,680</u>	<u>1,002,315</u>	<u>860,799</u>	<u>141,516</u>
<u>Police</u>				
Payroll Costs	781,310	781,310	782,615	(1,305)
Supplies	96,315	96,315	105,915	(9,600)
Contract Services	169,946	169,946	171,914	(1,968)
Maintenance	23,230	23,230	27,065	(3,835)
Sundry	2,399	2,399	1,024	1,375
Capital Outlay	50,000	50,000	35,898	14,102
Total Expenditures	<u>1,123,200</u>	<u>1,123,200</u>	<u>1,124,431</u>	<u>(1,231)</u>
<u>Animal Control</u>				
Payroll Costs	67,095	67,095	67,598	(503)
Supplies	16,150	16,150	17,050	(900)
Contract Services	31,970	31,970	23,122	8,848
Maintenance	3,200	3,200	5,057	(1,857)
Sundry	200	200	64	136
Capital Outlay	-	-	-	-
Total Expenditures	<u>118,615</u>	<u>118,615</u>	<u>112,891</u>	<u>5,724</u>
<u>Municipal Court</u>				
Payroll Costs	68,155	68,155	70,653	(2,498)
Supplies	20,471	20,471	8,635	11,836
Contract Services	104,985	104,985	78,945	26,040
Maintenance	3,160	3,160	674	2,486
Sundry	1,200	1,200	28	1,172
Capital Outlay	-	-	-	-
Total Expenditures	<u>197,971</u>	<u>197,971</u>	<u>158,935</u>	<u>39,036</u>

CITY OF CANTON, TEXAS
GENERAL FUND
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Difference</u>
<u>Fire</u>				
Payroll Costs	252,620	252,620	239,929	12,691
Supplies	47,610	47,610	36,633	10,977
Contract Services	95,515	95,515	59,821	35,694
Maintenance	38,695	38,695	33,309	5,386
Sundry	2,000	2,000	838	1,162
Capital Outlay	380,000	386,200	6,193	380,007
Total Expenditures	<u>816,440</u>	<u>822,640</u>	<u>376,723</u>	<u>445,917</u>
<u>Street</u>				
Payroll Costs	150,675	150,675	137,042	13,633
Supplies	54,500	23,000	33,502	(10,502)
Contract Services	177,420	177,420	168,157	9,263
Maintenance	66,000	66,000	96,996	(30,996)
Sundry	600	600	597	3
Capital Outlay	300,000	629,900	90,450	539,450
Total Expenditures	<u>749,195</u>	<u>1,047,595</u>	<u>526,744</u>	<u>520,851</u>
<u>Parks and Recreation</u>				
Payroll Costs	86,610	86,610	66,787	19,823
Supplies	23,640	23,640	14,194	9,446
Contract Services	55,445	55,445	41,449	13,996
Maintenance	111,000	111,000	99,252	11,748
Sundry	600	600	187	413
Capital Outlay	-	198,950	171,518	27,432
Total Expenditures	<u>277,295</u>	<u>476,245</u>	<u>393,387</u>	<u>82,858</u>
Total Expenditures	<u>\$4,219,396</u>	<u>\$4,788,581</u>	<u>\$3,553,910</u>	<u>\$ 1,234,671</u>

CITY OF CANTON, TEXAS
WATER SEWER FUND
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Difference</u>
<u>Water</u>				
Payroll Costs	\$ 351,150	\$ 351,150	\$ 342,331	\$ 8,819
Supplies	142,700	165,200	162,687	2,513
Contract Services	222,580	222,580	200,243	22,337
Maintenance	111,550	81,250	87,499	(6,249)
Sundry	1,750	1,750	(649)	2,399
Capital Outlay	175,000	173,350	-	173,350
Total Expenditures	<u>1,004,730</u>	<u>995,280</u>	<u>792,111</u>	<u>203,169</u>
<u>Sewer</u>				
Payroll Costs	138,210	138,210	151,065	(12,855)
Supplies	40,750	55,750	58,724	(2,974)
Contract Services	159,955	159,955	189,621	(29,666)
Maintenance	185,000	355,000	148,489	206,511
Sundry	-	-	36,734	(36,734)
Total Expenditures	<u>523,915</u>	<u>708,915</u>	<u>584,633</u>	<u>124,282</u>
Total Expenditures	<u>\$ 1,528,645</u>	<u>\$ 1,704,195</u>	<u>\$ 1,376,744</u>	<u>\$ 327,451</u>

Note: The City of Canton, Texas, prepares the Water and Sewer Fund annual budget on a basis (modified accrual basis) which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the City's method (modified accrual basis) in the above schedule to provide a meaningful comparison of actual results with the budget.

Adjustments necessary to convert the Water and Sewer Fund's expenditures on the modified accrual basis to a GAAP basis are provided below:

Expenditures - Modified Accrual Basis	\$ 1,376,744
Expenditures recognized for GAAP:	
Depreciation and Amortization	380,555
Operating Expenditures - GAAP Basis	<u>\$ 1,757,299</u>

CITY OF CANTON, TEXAS
 FIRST MONDAY FUND
 SCHEDULE OF FUNCTIONAL EXPENSES
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Difference</u>
Payroll Costs	\$ 551,305	\$ 551,305	\$ 552,692	\$ (1,387)
Supplies	199,500	199,500	194,918	4,582
Contract Services	841,760	974,960	923,364	51,596
Maintenance	793,000	871,500	180,638	690,862
Other Disbursements	-	-	-	-
Sundry	12,900	12,900	11,799	1,101
Total Expenditures	<u>\$2,398,465</u>	<u>\$2,610,165</u>	<u>\$1,863,411</u>	<u>\$ 746,754</u>

Note: The City of Canton, Texas, prepares the First Monday Fund annual budget on a basis (modified accrual basis) which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the City's method (modified accrual basis) in the above schedule to provide a meaningful comparison of actual results with the budget.

Adjustments necessary to convert the First Monday Fund's expenditures on the modified accrual basis to a GAAP basis are provided below:

Expenditures - Modified Accrual Basis	\$1,863,411
Expenditures recognized for GAAP:	
Depreciation and Amortization	223,627
Operating Expenditures - GAAP Basis	<u>\$2,087,038</u>

CITY OF CANTON, TEXAS
SANITATION
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Difference</u>
Payroll Costs	\$ 30,780	\$ 30,780	\$ 32,661	\$ (1,881)
Supplies	1,700	1,700	846	854
Contract Services	511,015	511,015	495,170	15,845
Maintenance	15,000	15,000	3,154	11,846
Other Disbursements	100	100	11,311	(11,211)
Total Expenditures	<u>\$ 558,595</u>	<u>\$ 558,595</u>	<u>\$ 543,142</u>	<u>\$ 15,453</u>

Note: The City of Canton, Texas, prepares the Sanitation Fund annual budget on a basis (modified accrual basis) which differs from generally accepted accounting principles (GAAP basis). The budget and all transactions are presented in accordance with the City's method (modified accrual basis) in the above schedule to provide a meaningful comparison of actual results with the budget.

No adjustments were necessary to convert the Sanitation Fund's expenditures on the modified accrual basis to a GAAP basis.

STATISTICAL SECTION
(UNAUDITED)



STATISTICAL SECTION

This part of the City of Canton's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, notes, disclosures, and required supplementary information says about the City's overall financial health. This information has not been audited by the independent auditor.

Contents

Table #s

Financial Trends

These tables contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

1,2,3,4,5

Revenue Capacity

These tables contain information to help the reader assess the City's two most significant local revenue sources, the property, and sales taxes.

6,7,8,9

Debt Capacity

These tables present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

10,11,12,13,14

Economic and Demographic Information

These tables offer economic and demographic indicators to help the reader understand the environment within which the City's financial activities take place.

15,16

Operating Information

These tables contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides.

17,18,19

Source: Unless otherwise noted, the information in these tables is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement 34 in fiscal year 2004: tables presenting government-wide information include information beginning that year.



CITY OF CANTON, TEXAS
NET ASSETS BY COMPONENT
LAST SEVEN FISCAL YEARS
(accrual basis of accounting)

Table 1

	FISCAL YEAR						
	2004	2005	2006	2007	2008	2009	2010
Governmental activities							
Invested in capital assets, net of related debt	\$ 3,239,307	\$ 3,392,419	\$ 4,052,709	\$ 4,780,990	\$ 8,917,364	6,879,822	7,853,707
Restricted	3,149,064	2,564,366	1,749,141	1,068,338	1,439,063	1,088,389	1,091,198
Unrestricted	874,067	394,235	773,952	1,228,978	(2,628,049)	554,154	829,474
Total governmental activities net assets	7,262,438	6,351,020	6,575,802	7,078,306	7,728,378	8,522,365	9,774,379
Business-type activities							
Invested in capital assets, net of related debt	3,593,216	5,099,501	7,246,782	8,049,798	8,847,997	10,025,715	9,512,081
Restricted	-	-	-	-	-	130,509	1,121,040
Unrestricted	869,072	1,368,354	1,057,221	1,182,662	1,722,995	1,111,558	2,007,778
Total business-type activities net assets	4,462,288	6,467,855	8,304,003	9,232,460	10,570,992	11,267,782	12,640,899
Primary government							
Invested in capital assets, net of related debt	6,832,523	8,491,920	11,299,491	12,830,788	17,765,361	16,905,537	17,365,788
Restricted	3,149,064	2,564,366	1,749,141	1,068,338	1,439,063	1,218,898	2,212,238
Unrestricted	1,743,139	1,762,589	1,831,173	2,411,640	(905,054)	1,665,712	2,837,252
Total primary government net assets	\$ 11,724,726	\$ 12,818,875	\$ 14,879,805	\$ 16,310,766	\$ 18,299,370	\$ 19,790,147	\$ 22,415,278

Note: Accrual-basis financial information for the city as a whole is only available back to 2004, the year GASB Statement 34 was implemented. Years will continue to be added until there are 10 years for comparison.

CITY OF CANTON, TEXAS
CHANGES IN NET ASSETS
LAST SEVEN FISCAL YEARS
(accrual basis of accounting)

	2004	2005	2006	2007	2008	2009	2010
EXPENSES							
Government activities:							
General government	\$ 770,401	\$ 621,221	\$ 834,783	\$ 695,308	\$ 706,877	\$ 975,534	\$ 821,677
Public Safety	1,056,838	921,820	1,124,601	1,297,739	1,473,409	1,463,891	1,584,341
Public Works	271,479	260,624	311,485	466,698	596,873	765,471	668,367
Public Services and Operations	124,044	122,250	164,485	215,320	344,222	276,339	278,595
Cultural and Recreation	74,091	111,339	197,652	171,891	293,487	381,200	277,565
Interest Expense	119,474	238,810	266,110	210,684	298,690	186,529	155,545
Unallocated Depreciation	187,717	256,612	263,996	272,261	-	-	-
Total governmental activities expenses	2,604,044	2,532,676	3,163,112	3,329,901	3,713,558	4,048,964	3,786,090
Business-type activities:							
Water and Sewer	2,095,020	2,154,148	2,260,908	2,231,605	1,851,540	2,133,803	1,852,580
Sanitation	-	-	-	-	577,327	614,118	543,142
First Monday	2,284,470	2,420,318	2,769,036	2,884,669	2,911,402	2,891,481	2,087,038
Total business-type activities expenses	4,379,490	4,574,466	5,029,944	5,116,274	5,340,269	5,639,402	4,482,760
Total primary government expenses	6,983,534	7,107,142	8,193,056	8,446,175	9,053,827	9,688,366	8,268,850
PROGRAM REVENUES							
Governmental activities:							
Charge for services:							
General government	190,378	259,736	245,698	121,906	129,515	32,957	30,325
Public Safety	194,064	140,869	188,708	294,643	-	55,081	42,465
Public Works	222,459	243,319	5,071	2,055	-	-	-
Public Services and Operations	36,160	27,209	61,016	61,591	202,404	314,253	276,852
Total governmental activities program revenues	643,061	671,133	500,493	480,195	331,919	402,291	349,642
Business-type activities:							
Charge for services:							
Water and Sewer	1,575,445	1,900,319	2,102,690	2,036,062	1,747,927	1,873,195	1,636,119
Sanitation	-	-	-	-	602,820	556,578	553,448
First Monday	3,375,221	3,281,485	3,385,051	3,515,950	3,332,549	3,428,312	2,624,051
Total business-type activities program revenues	4,950,666	5,181,804	5,487,741	5,552,012	5,683,296	5,858,085	4,813,618
Total primary government program revenues	5,593,727	5,852,937	5,988,234	6,032,207	6,015,215	6,260,376	5,163,260
NET (EXPENSE) REVENUES							
Governmental activities	(1,960,983)	(1,861,543)	(2,662,619)	(2,849,706)	(3,381,639)	(3,646,673)	(3,436,448)
Business-type activities	571,176	607,338	457,797	435,738	343,027	218,683	330,858
Total primary government program net expenses	\$ (1,389,807)	\$ (1,254,205)	\$ (2,204,822)	\$ (2,413,968)	\$ (3,038,612)	\$ (3,427,990)	\$ (3,105,590)

(continued)

CITY OF CANTON, TEXAS
CHANGES IN NET ASSETS
LAST SEVEN FISCAL YEARS
(accrual basis of accounting)

Table 2

	2004	2005	2006	2007	2008	2009	2010
GENERAL REVENUES AND OTHER CHANGES							
IN NET ASSETS							
Government activities:							
Taxes:							
Property	\$ -	\$ -	\$ 847,126	\$ 961,661	\$ 1,055,951	\$ 1,058,246	\$ 1,147,211
Sales	1,258,338	1,230,662	1,937,551	1,994,083	2,157,257	2,112,512	2,087,499
Franchise	588,183		264,934	313,342	258,808	213,261	229,691
Beverage	-	6,112	6,908	6,766	6,354	4,968	7,003
Hotel/Motel	8,528	3,273	-	-	-	-	-
Investment Income	43,060	95,892	115,021	78,512	111,716	16,717	11,859
Insurance Reimbursement	-	-	126,660	322	8,776	-	-
FEMA Reimbursement	-	-	-	-	56,873	-	-
Donations	-	-	-	-	169,654	3,373	9,095
Miscellaneous	86,980	669,834	78,581	39,750	20,862	52,605	56,807
Extraordinary Loss	-	-	-	(300,000)	-	-	-
Operating & Capital Grants	-	-	-	312,144	446,870	98,531	279,767
Intragovernmental	(44,870)	11,772	86,744	-	115,000	248,688	-
Transfers	427,996	(1,115,968)	(793,876)	(43,517)	(365,390)	441,333	331,682
Total governmental activities	2,368,215	901,577	2,669,649	3,363,063	4,042,731	4,250,234	4,160,614
Business-type activities:							
Investment Income	-	12,295	41,829	94,252	46,819	8,652	7,174
Hotel/Motel	125,425	207,757	131,989	157,477	183,557	220,532	210,697
Miscellaneous	-	18,559	-	-	74,567	31,588	69,182
Donations	-	-	-	-	-	30,000	-
Sale of Assets	-	-	12,646	-	(205)	-	-
Operating & Capital Grants	-	-	-	28,000	-	473,617	1,069,158
Intergovernmental	-	50,000	386,214	125,000	80,000	143,635	20,000
Transfers	(427,996)	1,115,968	793,876	43,517	365,390	(441,333)	(331,682)
Total business-type activities	(302,571)	1,404,579	1,366,554	448,246	750,128	466,691	1,044,529
Total primary government revenues	2,065,644	2,306,156	4,036,203	3,811,309	4,792,859	4,716,925	5,205,143
CHANGE IN NET ASSETS							
Governmental activities	407,232	(959,966)	7,030	513,357	661,092	603,561	724,166
Business-type activities	268,605	2,011,917	1,824,351	883,984	1,093,155	685,374	1,375,387
Total primary government program net expenses	\$ 675,837	\$ 1,051,951	\$ 1,831,381	\$ 1,397,341	\$ 1,754,247	\$ 1,288,935	\$ 2,099,553

CITY OF CANTON, TEXAS
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST SEVEN FISCAL YEARS
 (accrual basis of accounting)

Table 3

Fiscal Year	Property Tax	Sales Tax	Franchise Tax	Hotel/ Motel	Total
2004	\$ -	\$ 1,258,338	\$ 207,599	\$ 125,425	\$ 1,591,362
2005	-	1,230,662	241,779	136,507	1,608,948
2006	847,126	1,937,551	264,934	131,989	3,181,600
2007	961,661	1,994,083	313,342	157,477	3,426,563
2008	1,055,951	2,157,257	258,808	183,557	3,655,573
2009	1,058,246	2,112,512	213,261	220,532	3,604,551
2010	\$ 1,147,211	\$ 2,087,499	\$ 229,691	\$ 210,697	\$ 3,675,098

Note: 2006 was the first year to collect property taxes since 1992.

Years will continue to be added until there are 10 years for comparison

CITY OF CANTON, TEXAS
FUND BALANCES, GOVERNMENTAL FUNDS
LAST SEVEN FISCAL YEARS
(modified accrual basis of accounting)

Table 4

	FISCAL YEAR						
	2004	2005	2006	2007	2008	2009	2010
General Fund							
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 79,650	\$ 158,819
Unreserved	1,073,842	1,425,190	1,148,056	960,626	1,192,632	635,926	716,087
	<u>\$ 1,073,842</u>	<u>\$ 1,425,190</u>	<u>\$ 1,148,056</u>	<u>\$ 960,626</u>	<u>\$ 1,192,632</u>	<u>\$ 715,576</u>	<u>\$ 874,906</u>
All Other Government Funds							
Reserved							
Capital Improvements	\$ 3,149,064	\$ 1,319,582	\$ 1,068,340	\$ -	\$ 991,143	\$ -	\$ -
Debt Service	50,272	429,560	394,909	1,466,971	447,920	1,034,399	983,567
	<u>\$ 3,199,336</u>	<u>\$ 1,749,142</u>	<u>\$ 1,463,249</u>	<u>\$ 1,466,971</u>	<u>\$ 1,439,063</u>	<u>\$ 1,034,399</u>	<u>\$ 983,567</u>

NOTE: Years will continue to be added until there are 10 years for comparison

CITY OF CANTON, TEXAS
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
LAST SEVEN FISCAL YEARS
(modified accrual basis of accounting)

Table 5

	2004	2005	2006	2007	2008	2009	2010
REVENUES							
Property Taxes	\$ -	\$ -	\$ 847,126	\$ 961,660	\$ 1,055,951	\$ 1,068,738	\$ 1,147,211
Non-Property Taxes	1,855,049	1,851,396	2,209,393	2,314,191	2,422,419	2,330,741	2,324,193
License and permits	287,705	283,359	65,757	33,114	90,420	49,565	43,873
Charge for Services	62,042	70,676	12,556	17,321	23,693	74,221	67,565
Fines/Court	125,673	111,274	129,011	275,099	178,711	196,187	167,744
Capital & Operations Grants	-	127,143	29,679	312,144	446,870	98,531	279,767
Rental Income	-	-	43,145	32,755	39,095	32,957	48,601
Donations	-	-	-	-	169,654	3,373	9,095
Investment Income	6,851	95,893	115,022	78,511	111,715	16,717	11,860
Total Revenues	2,337,320	2,539,741	3,451,689	4,024,795	4,538,528	3,871,030	4,099,909
EXPENDITURES							
General government	773,383	610,816	1,117,052	993,892	891,451	1,132,721	795,167
Public Safety	1,125,963	1,023,107	1,072,538	1,348,594	2,038,530	1,934,821	1,459,063
Public Works	271,479	316,410	350,402	715,880	1,589,888	1,482,197	436,294
Public Services and Operations	129,677	122,250	285,309	269,968	292,341	265,646	271,826
Parks and Cultural	125,285	159,035	287,619	246,987	319,171	563,291	221,869
Capital Outlay	695,160	67,491	29,548	-	-	-	369,691
Debt Service							
Principal	216,070	230,885	244,663	253,142	556,193	633,988	667,482
Interest and other charges	119,474	238,810	265,990	208,712	329,062	143,426	180,367
Total Expenditures	3,456,491	2,768,804	3,653,121	4,037,175	6,016,636	6,156,090	4,401,759
OTHER FINANCING SOURCES (USES):							
Sale of Assets	36,209	-	-	-	-	29,487	-
Debt Proceeds	-	-	-	-	1,900,000	380,000	-
Intergovernmental	93,639	11,772	-	-	195,000	248,688	-
FEMA Reimbursements	-	-	-	-	56,873	-	-
Insurance Reimbursement	-	-	126,660	322	8,776	49,361	40,136
Extraordinary Loss	-	-	-	(300,000)	-	-	-
Miscellaneous	227,143	264,305	328,603	189,355	20,863	52,605	38,531
Transfers	427,996	(1,115,969)	(793,876)	(71,220)	(445,390)	448,279	331,681
Total other financing sources (uses)	784,987	(839,892)	(338,613)	(181,543)	1,736,122	1,208,420	410,348
NET CHANGE IN FUND BALANCES	\$ (334,184)	\$ (1,068,955)	\$ (540,045)	\$ (193,923)	\$ 258,014	\$ (1,076,640)	\$ 108,498
Debt service as a percentage of noncapital expenditures	13.83%	21.05%	16.40%	12.92%	17.25%	14.45%	26.63%

CITY OF CANTON, TEXAS

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
SEPTEMBER 30, 2010

Table 6

Fiscal Year Ended Sept. 30	Real Property		Less:		Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value ^a as a Percentage of Actual Value
	Residential Property	Commercial Property	Other	Tax Exempt Real Property			
2007	\$ 132,898,480	\$ 129,840,220	\$ 33,133,740	\$ 35,614,780	\$ 0.39000	\$ 101,500,487	39.00%
2008	\$ 134,823,670	\$ 102,566,320	\$ 33,206,420	\$ 27,361,518	\$ 0.42523	\$ 103,430,773	42.52%
2009	\$ 184,651,730	\$ 85,766,718	\$ 28,283,792	\$ 45,556,942	\$ 0.42523	\$ 107,644,975	42.52%
2010	\$ 139,534,250	\$ 179,636,930	\$ 9,891,220	\$ 42,279,716	\$ 0.42523	\$ 121,948,601	42.52%

Source: Van Zandt County Appraisal District

Note: Property is reassessed annually. Property is assessed at actual value; therefore, the assessed values are equal to actual value.
Tax rates are per \$100 of assessed value.

Residential: includes single family, vacant lots, acreage, farm and ranch

Commercial: includes real property, industrial and utilities

Years will continue to be added until there are 10 years for comparison

^a Includes tax-exempt property

CITY OF CANTON, TEXAS
DIRECT AND OVERLAPPING PROPERTY TAX RATES
SEPTEMBER 30, 2010
(PER \$100 OF ASSESSED VALUE)

Table 7

Fiscal Year Ended Sept. 30	City Direct Rates			Canton Independent School District	Van Zandt County
	Operating/ General Rate	General Obligation Debt Service	Total Direct		
2007	\$ 0.18514	\$ 0.20486	\$ 0.39000	\$ 1.471	\$ 0.35533
2008	\$ 0.22523	\$ 0.20000	\$ 0.42523	\$ 1.471	\$ 0.38689
2009	\$ 0.10119	\$ 0.32404	\$ 0.42523	\$ 1.471	\$ 0.38689
2010	\$ 0.12713	\$ 0.29810	\$ 0.42523	\$ 1.471	\$.42696

Source: Van Zandt County Appraisal District

Note: The City's basic property tax rate may be increased over the rollback tax rate only by a majority vote of the City's residents. Rates for debt service are set based on each year's requirements.
Years will continue to be added until there are 10 years for comparison

* Overlapping rates are those of local and county governments that apply to property owners within the City of Canton

**CITY OF CANTON, TEXAS
PRINCIPAL TAXPAYERS
SEPTEMBER 30, 2010**

Table 8

Taxpayer	Assessed Taxable Value 2010 Fiscal Year	Rank	Percentage of Assessed Taxable Value
Lewis, Henry	\$ 9,733,590	1	19.47%
Wal-Mart Stores Texas LP #827	7,222,650	2	14.44%
Wal Mart Real Est Business Trust	7,116,570	3	14.23%
Brookshire Grocery Company	5,171,860	4	10.34%
Bridwell Center Development Partners	4,830,620	5	9.66%
Starship League City LLP	4,147,920	6	8.29%
Kingdom Perspectives GP Ltd	3,251,590	7	6.50%
Traders Square Investments Ltd	2,928,300	8	5.86%
Michels, Gary E	2,836,120	9	5.67%
Brookshire Grocery Company	2,766,140	10	5.53%
	<u>\$ 50,005,360</u>		<u>100.00%</u>
 Total Assessed Valuation	 <u>\$ 1,125,108</u>		

Source: Van Zandt County Appraisal District

CITY OF CANTON, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
SEPTEMBER 30, 2010

Table 9

Fiscal Year	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	% of Levy		Amount	% of Levy
2006	\$ 863,978	\$ 847,126	98.05%	\$ 2,288	\$ 849,414	98.31%
2007	938,869	921,761	98.18%	11,141	932,902	99.36%
2008	1,012,035	998,167	98.63%	11,459	1,009,626	99.76%
2009	1,076,450	1,023,609	95.09%	37,844	1,061,453	98.61%
2010	\$ 1,125,108	\$ 1,100,715	97.83%	\$ 9,279	\$ 1,109,994	98.66%

Note: First year property taxes collected was in FYE 9.30.2006 since 1992

Years will continue to be added until there are 10 years for comparison

CITY OF CANTON, TEXAS
RATIO OF OUTSTANDING DEBT BY TYPE
SEPTEMBER 30, 2010

Table 10

FISCAL YEAR	Governmental Activities				Business-Type Activities				Total Primary Government	Per Capita (1)
	Limited Tax Note	Certificates of Obligation	Other Obligations	Refunding Bonds	Certificates of Obligation	Other Obligations	Refunding Bonds	Revenue Bonds		
2004	\$ -	\$ 961,670	\$ 99,238	\$ 3,360,000	\$ 1,923,329	\$ -	\$ 1,730,000	\$ -	\$ 8,074,237	n/a
2005	\$ -	\$ 920,321	\$ 84,603	\$ 3,185,000	\$ 1,839,680	\$ 580,048	\$ 1,405,000	\$ -	\$ 8,014,652	n/a
2006	\$ -	\$ 875,320	\$ 69,940	\$ 3,000,000	\$ 1,749,680	\$ 463,684	\$ 1,070,000	\$ -	\$ 7,228,624	n/a
2007	\$ -	\$ 828,623	\$ 80,684	\$ 2,810,000	\$ 1,656,347	\$ 314,449	\$ 725,000	\$ -	\$ 6,415,103	\$ 1,246
2008	\$ 500,000	\$ 2,110,325	\$ 47,328	\$ 2,460,000	\$ 1,559,676	\$ 190,007	\$ 575,000	\$ -	\$ 7,442,336	\$ 1,446
2009	\$ 469,987	\$ 2,005,330	\$ 398,348	\$ 1,990,000	\$ 1,459,671	\$ 26,315	\$ 420,000	\$ -	\$ 6,769,651	\$ 1,315
2010	\$ 450,588	\$ 1,891,550	\$ 339,044	\$ 1,515,000	\$ 1,363,450	\$ -	\$ 260,000	\$ 1,045,000	\$ 6,864,632	\$ 1,334

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(1) See Table 15 for personal income and population data.

Years will continue to be added until there are 10 years for comparison

CITY OF CANTON, TEXAS
RATIOS OF NET GENERAL BONDED DEBT OUTSTANDING
SEPTEMBER 30, 2010

Table 11

Fiscal Year	Estimated Population	Assessed Property Value (1)	Gross Bonded Debt (2)	Less Debt Service Funds (3)	Net Bonded Debt	% of Net Bonded Debt to Assessed Property Value	Net Bonded Debt per Capita
2007	5,147	\$ 283,276,940	\$ 3,719,337	\$ 487,252	\$ 3,232,085	1.14%	\$ 723
2008	5,147	\$ 243,234,892	\$ 5,070,325	\$ 447,920	\$ 4,622,405	1.90%	\$ 985
2009	5,147	\$ 253,145,298	\$ 4,465,317	\$ 1,034,399	\$ 3,430,918	1.36%	\$ 868
2010	5,147	\$ 286,782,684	\$ 3,857,138	\$ 983,567	\$ 2,873,571	1.00%	\$ 749

Source: City Staff
(1) Van Zandt County Appraisal District
(2) Schedule of Bonds Payable
(3) Notes to the Financial Statement

Note: Years will continue to be added until there are 10 years for comparison

CITY OF CANTON, TEXAS
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
SEPTEMBER 30, 2010

Table 12

Governmental Subdivision	Gross Bonded Debt	Percentage of Debt Applicable to Area	City Share of Overlapping Debt
Van Zandt County	\$ 6,735,000	11.71%	\$ 788,669
Canton Independent School District	<u>40,193,836</u>	41.59%	<u>16,716,616</u>
	<u>\$46,928,836</u>		17,505,285
City of Canton			<u>3,820,597</u>
			<u>\$21,325,882</u>
Ratio of overlapping bonded debt to taxable assessed valuation (valued at 100% of market value)			<u>7.89%</u>
Per capita overlapping bonded debt			<u>\$4,143</u>

Source: "Texas Municipal Report" as of September 30, 2010, prepared by the Municipal Advisory Council

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Canton. This process recognizes that, when considering the City of Canton's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

(1) The percentage of overlapping debt applicable is estimated using the taxable assessed property values. Applicable percentages were estimated by determining the portion of the overlapping government's taxable assessed value that is within the City of Canton's boundaries and dividing it by the overlapping government's total taxable assessed value.

**CITY OF CANTON, TEXAS
LEGAL DEBT MARGIN INFORMATION
LAST FIVE FISCAL YEARS**

Table 13

	FISCAL YEAR				
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Tax Rate Limit	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50
Current Tax Rate	0.4000	0.3900	0.42523	0.42523	0.42523
Available Tax Rate	<u>\$ 1.1000</u>	<u>\$ 1.1100</u>	<u>\$ 1.0748</u>	<u>\$ 1.0748</u>	<u>\$ 1.0748</u>

Legal Debt Margin Calculation for Fiscal Year 2010

Assessed value	\$ 329,062,400
Add back exempt real property	42,279,716
	<u>\$ 371,342,116</u>
Debt limit (10% of total assessed value)	\$ 37,134,212
Debt applicable to limit:	
Bonded Debt	3,857,138
Less: Amount set aside for repayment of general obligation debt	667,482
	<u>\$ 3,189,656</u>
Legal debt margin	<u>8.59%</u>

NOTE: FYE 9.30.2006 was the first year for property tax

**CITY OF CANTON, TEXAS
PLEDGED-REVENUE COVERAGE
LAST SEVEN FISCAL YEARS**

Table 14

Water and Sewer Revenue Bonds					
Fiscal Year	Total Revenues ^a	Less: Operating Expenses ^b	Net Available Revenue	Annual Requirement	Times Coverage
2004	\$ 1,575,445	\$ 2,095,020	\$ (519,575)	\$ 391,671	(1.33)
2005	\$ 1,900,319	\$ 2,154,148	\$ (253,829)	\$ 556,219	(0.46)
2006	\$ 2,102,690	\$ 2,260,908	\$ (158,218)	\$ 557,584	(0.28)
2007	\$ 2,064,062	\$ 2,231,605	\$ (167,543)	\$ 246,666	(0.68)
2008	\$ 2,350,747	\$ 2,428,867	\$ (78,120)	\$ 255,000	(0.31)
2009	\$ 2,903,390	\$ 2,371,358	\$ 532,032	\$ 338,287	1.57
2010	\$ 2,189,567	\$ 1,919,886	\$ 269,681	\$ 420,859	0.64

Note: ^a Total Revenues does not include non-operating revenues

^b Operating Expenses only - not transfers or depreciation

Years will continue to be added until there are 10 years for comparison

CITY OF CANTON, TEXAS
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 SEPTEMBER 30, 2010
 LAST FOUR FISCAL YEARS

Table 15

Fiscal Year	Estimated Population ¹	Personal Income ²	Per Capita Income ²	Average Age ²	Grade School Enrollment ³	Unemployment Rate ⁴
2007	5,147	\$ 41,626	\$ 20,153	42.4	908	8.20%
2008	5,147	\$ 37,510	\$ 20,950	43.4	956	7.20%
2009	5,147	\$ 42,500	\$ 17,351	43.4	942	7.40%
2010	5,147	\$ 42,802	\$ 21,480	40	948	7.20%

Sources:

- ¹ City of Canton
- ² Canton Economic Development Corporation
- ³ Canton ISD
- ⁴ Texas Workforce Commission

Note: Years will continue to be added until there are 10 years for comparison

**CITY OF CANTON, TEXAS
PRINCIPAL EMPLOYERS
SEPTEMBER 30, 2010**

Table 16

<u>Name of Employer</u>	<u>No. of Employees</u>
Wal-Mart Supercenter	350
Canton ISD	258
Van Zandt County	215
Brookshires	105
Splash Kingdom	100
Winning Strategies	100
City of Canton	67
Homemade Gourmet	50
Mill Creek RV Park and Resort	42
Trinity Mother Frances Clinic	34

Source: Canton Economic Development Corporation Research

**CITY OF CANTON, TEXAS
FULL-TIME EQUIVALENT CITY GOVERNMENT
EMPLOYEES BY FUNCTION/PROGRAM
SEPTEMBER 30, 2010**

Table 17

<u>Function / Program</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
General Government	6.5	8.5	7.5	8
Public Safety				
Police	18	18.5	18.5	18.5
Municipal Court	1.5	3	2	2
Fire	3	4	5	5
Public Works	7.5	10	10	7
Streets	5.5	2	2	2
Parks and Recreation	2	5	5	2
Utility Administration	2	2	2	2
Water, Wastewater	11	9	8	8
First Monday	14	12	12	12

Source: City Staff

**CITY OF CANTON, TEXAS
OPERATING INDICATORS BY FUNCTION
SEPTEMBER 30, 2010**

Table 18

Function/Program	2007	2008	2009	2010
Police				
Number of police officers	13	13	13	13
Number of violations (citations)	1,731	1,505	1,811	1,488
Fire				
Number of firefighters	20	21	23	20
Number of fire service runs	96	164	105	NA
Number of Medical assist runs	173	199	606	NA
Development Services				
Construction permits issued ¹	170	206	255	210
Estimated valuation ¹	\$ 1,543,844	\$ 3,313,192	\$ 4,603,990	\$ 3,493,399
Public Works				
Streets paved (miles)	26	26	26	26
Parks and Recreation				
Park land and municipal acreage maintained	236	236	257	257
Water and Wastewater				
Number of water customers	1,983	2,043	1,988	2,016
Average daily water consumption (millions of gallons)	0.607	0.702	0.788	0.750
Maximum storage capacity (millions of gallons)	1.39	1.39	1.39	1.39
Solid Waste				
Solid waste collected (tons)	5,000	5,000	5,000	5,000

Source: City Departments

¹Includes residential, commercial, and miscellaneous (e.g., pools, fences) permits

**CITY OF CANTON, TEXAS
CAPITAL ASSET STATISTICS BY FUNCTION
SEPTEMBER 30, 2010**

Table 19

Function/Program	2007	2008	2009	2010
Police				
Stations	1	1	1	1
Patrol Units	10	10	10	10
Fire				
Stations	1	1	1	1
Public Works				
Streets-Paved (miles)	26	26	26	26
Street Lights	501	501	501	501
Parks and Recreation				
Park Acreage	150	150	150	150
Public Parks	3	3	3	3
Community Centers	1	1	1	1
Senior Centers	1	1	1	1
Tennis Courts	4	4	4	4
Soccer Fields	5	5	5	5
Baseball Fields	7	7	7	7
Library	1	1	1	1
Water and Wastewater				
Water Mains (miles)	47	47	49	49
Fire Hydrants	231	231	245	245
Storm Sewers (miles)	0.75	0.75	1.25	1.25
Sanitary Sewers (miles)	38.5	38.5	45	45
First Monday (acres)	100	100	100	100

Source: City Departments